

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, 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 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.

6/16/2022  
Date \_\_\_\_\_ Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7019 0700 0000 3590 2539**

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IN THE MATTER OF: )  
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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, 2016 through December 31, 2020.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on May 2, 2022.

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 May 27, 2022 and was received by the Company on May 27, 2022.

On June 10, 2022, 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:

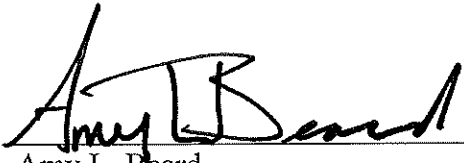
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.
2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2020.

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 16 day of  
June, 2022.

  
\_\_\_\_\_  
Amy L. Beard  
Insurance Commissioner

## ABOUT AFFIRMATIONS

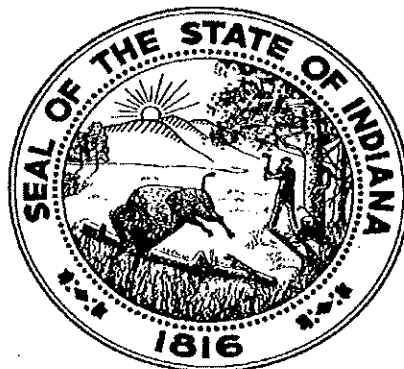
The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

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 4928

As of  
December 31, 2020



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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: 317-232-5251  
Website: [in.gov/idoi](http://in.gov/idoi)

May 2, 2022

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 4080, 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 1281 Murfreesboro Pike, Suite 150, Nashville, Tennessee 37217.

The Report of Examination, showing the status of the Company as of December 31, 2020, 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 317-232-2402	COMPANY RECORDS 317-232-5692	STATE HEALTH INSURANCE PROGRAM 1-800-452-4800
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## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2015. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2016 through December 31, 2020, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The Company is an indirectly held subsidiary of National General Holding Corp. (National General). However, with the exception of Direct General Insurance Company of Mississippi (DGICMS) and the Company, the other member insurers in the holding group were last examined as of December 31, 2017. Therefore, this examination has not been coordinated.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Ernst & Young, LLP (EY) for the periods ending December 31, 2019, and 2020. For the examination years 2017 to 2020, the Company requested, and was granted approval by INDOI, to file combined audited statutory basis financial statements along with Integon National Insurance Company (Integon National), which is the lead reinsurer of 100% ceded business of the property & casualty companies in the National General Group. The combined audited statutory basis financial statements were then reconciled to the combined Annual Statement for the respective years.

The Actuarial Opinion for the years 2017 to 2020 was provided by Gareth L. Kennedy, ACAS, MAAA of EY. Ronald T. Kuehn, FCAS MAAA, CERA, CPCU, ARM, FCA of Huggins Actuarial Services, Inc. provided an Actuarial Opinion for 2016.

In accordance with the 2020 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the 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, Thomas Consulting 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 (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 (DGIC) 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, DGIC. 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 Elara and DGC. This included all subsidiaries in the Elara Group. On January 4, 2021, The Allstate Corporation (Allstate) completed its acquisition of National General, including the Company.

### CAPITAL AND SURPLUS

As of December 31, 2020, 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 Corp. (National General Management). There was no preferred stock outstanding as of December 31, 2020.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2020, the Company was licensed to transact business in fifteen (15) states but wrote approximately 76% of its business in Florida. The remainder of states considering the materiality of premiums written were Alabama, Georgia, and Texas. As a result of the business concentration in Florida, the Company is commercially domiciled in Florida.

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:

Year	Admitted Assets	Liabilities	Capital & Surplus	Direct Written Premiums*	Net Income (Loss)
2020	\$237,042,170	\$186,769,541	\$ 50,272,629	\$471,511,259	\$ 808,646
2019	204,568,258	155,057,011	49,511,247	307,489,054	1,516,233
2018	192,099,539	141,570,185	50,529,354	279,860,923	3,762,442
2017	188,873,617	144,089,855	44,783,762	289,324,012	21,491,140
2016	384,570,517	271,590,958	112,979,559	307,935,231	1,886,833

*\*Effective January 1, 2017, the Company entered into a 100% ceded reinsurance agreement with its affiliate Integon National as such Direct Premiums Written were considered to be more meaningful data. Furthermore, the assumed premiums declined during the examination years as follows: 2016 - \$15,978,422; 2017 - \$5,867,268; 2018 - \$2,114,192; 2019 - \$3,092,462, and 2020 - \$(358,050).*

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

The decline in admitted assets, liabilities, and capital & surplus during the period covered by this examination were primarily due to dividends to stockholders for the years 2016 and 2017 in amounts of

\$11,000,000 and \$27,204,580, respectively, and a surplus adjustment to paid in of \$40,878,596 during the year 2017. The main increase in net income during 2017 was net realized capital gains of \$8,402,242 and a decrease in federal and foreign income taxes of \$12,195,177.

**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, 2020:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Barry S. Karfunkel* New York, New York	Chairman & Chief Executive Officer National General and its subsidiaries
Peter A. Rendall Sanibel, Florida	Chief Operating Officer and Chief Risk Officer National General and its subsidiaries
Gregory L. Thomas**** Indianapolis, Indiana	Attorney – private practice
Michael H. Weiner** New York, New York	Treasurer & Chief Financial Officer National General and its subsidiaries
Jeffrey A. Weissmann*** Clifton, New Jersey	Executive Vice President, General Counsel & Secretary - National General and its subsidiaries

\* Resigned effective January 15, 2021, after the acquisition by Allstate Corporation on January 4, 2021

\*\* Resigned effective July 23, 2021, after the acquisition by Allstate Corporation on January 4, 2021

\*\*\* Resigned effective July 6, 2021, after the acquisition by Allstate Corporation on January 4, 2021

\*\*\*\* Terminated July 23, 2021, after the acquisition by Allstate Corporation on January 4, 2021

**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, 2020:

<u>Name</u>	<u>Position</u>
Robert M. Karfunkel*	President
Peter A. Rendall	Chief Operating Officer
Michael H. Weiner**	Treasurer and Chief Financial Officer
Jeffrey A. Weissmann***	Secretary and General Counsel
Donald J. Bolar	Chief Accounting Officer
George H. Hall, Jr.	Chief Claims Officer
Michael S. Goldstein	Senior Vice President

\* Resigned effective January 15, 2021, after the acquisition by Allstate Corporation on January 4, 2021

\*\* Resigned effective July 23, 2021, after the acquisition by Allstate Corporation on January 4, 2021

\*\*\* Resigned effective July 6, 2021, after the acquisition by Allstate Corporation on January 4, 2021

### Corporate Governance

The Company does not have any Board committees. The Board committees were all at the National General level during the period covered by this examination. The Bylaws of National General provide that the Board may designate one (1) or more committees. Each committee shall consist of one (1) or more directors of the corporation. Accordingly, the following committees existed as of the examination date:

#### Audit Committee:

John M. Marshaleck, Chairman\*\*\*  
 Patrick J. Fallon\*\*\*  
 Barbara E. Paris\*\*\*

#### Investment Committee:

Barry S. Karfunkel\* Chairman  
 Peter A. Rendall  
 Michael H. Weiner\*\*

#### Compensation Committee:

Donald T. DeCarlo, Chairman\*\*\*  
 John M. Marshaleck\*\*\*  
 Jay D. Nichols\*\*\*

\* Resigned effective January 15, 2021, after the acquisition by Allstate Corporation on January 4, 2021

\*\* Resigned effective July 23, 2021, after the acquisition by Allstate Corporation on January 4, 2021

\*\*\* Independent directors of National General resigned effective February 27, 2021 following the filing of National General's 10-K for the year ending December 31, 2020

## CONFLICT OF INTEREST

The Board of National General Management, 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**

During the period under examination, the Company amended its Articles of Incorporation on January 3, 2017 to change the location of its corporate office to 8604 Allisonville Road, Castle Creek 1, Suite 130, Indianapolis, Indiana 46250.

No other changes were made to its 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 taken during each meeting were noted. 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. The Board minutes also provided evidence that the preceding meetings and actions taken during those meetings were read and approved during the period under examination. All Annual Shareholders Meetings for the examination period were held during the first five (5) months of each year.

## AFFILIATED COMPANIES

### Organizational Structure

As of December 31, 2020, the Company was a wholly-owned subsidiary of National General Management, which was a wholly-owned subsidiary of National General, a publicly held company. Leah Karfunkel, as trustee of Leah Karfunkel 2016-NG GRAT (11.8%) and the Michael Karfunkel Family 2005 Trust (30%), directly and indirectly owned 41.8% of National General common stock. Accordingly, Leah Karfunkel, the widow of Michael Karfunkel, had all powers of a sole trustee with respect to National General common stock held by each trust.

There were approximately 20 property and casualty companies, two (2) accident and health companies, and two (2) management companies that manage two (2) reciprocal exchange companies in the group. The chart below has been condensed due to the large size of the organizational structure and reflects companies that produced business for the Company through affiliated management agreements, reinsurance agreements, or affiliated agencies:

	NAIC CO. <u>Code</u>	Domiciliary <u>State/County</u>
National General Holdings Corp.		DE
National General Management Corp.		DE
Integon National Insurance Company	29742	NC
<b>Direct General Insurance Company</b>	<b>42781</b>	<b>IN</b>
Direct General Insurance Company of Mississippi	10889	MS
Direct Insurance Company	37220	NC
Direct National Insurance Company	23736	NC
Direct General Life Insurance Company	97705	SC
Direct General Insurance Agency, Inc.		TN
Right Choice Insurance Agency, Inc.		TN

### Affiliated Agreements

For the examination year 2020, the Company filed a Form B Holding Company Registration Statement with the INDOI on a consolidated basis along with its ultimate controlling entity, Allstate Corporation (Allstate) (acquisition date January 4, 2021). As such, most of the affiliated agreements and transactions were not stated in the Form B due to materiality. However, the following agreements and transactions were filed with, and not disapproved by, the INDOI in accordance with IC 27-1-23-4(b)(4).

### Management Services Agreement

Effective November 1, 2016, the Company, DGICMS, Direct General Life Insurance Company (DGLIC), Direct Insurance Company (DIC), Direct National Insurance Company (DNIC), and National General Management were parties to a Management Services Agreement. Pursuant to the agreement, National General Management provides underwriting, claims, actuarial, policyholder services, accounting, information technology, and other administrative functions for the insurers. The Company's allocated portion under this agreement for 2019 and 2020 was \$114,243,241 and \$154,599,555, respectively.

### Tax Allocation Agreement

Effective November 1, 2016, the Company, DGICMS, DGLIC, DIC, and DNIC were parties to a Tax Allocation Agreement with National General. The agreement sets forth the parties' obligations in connection with their filing as a consolidated tax filing group in accordance with the relevant provisions of the Internal Revenue Code. The Company's allocated portion under this agreement for 2019 and 2020 was \$399,180 and \$225,357, respectively.

### Reinsurance Agreement

Effective January 1, 2017, the Company, DGICMS, DNIC, DIC, and Direct General Insurance Company of Louisiana (DGICLA), entered into a Reinsurance Agreement with 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 will be ceded to Integon National, and they will assume 100% of the premiums.

### Asset Management Agreement

Effective November 1, 2016, the Company, DGICMS, DGICLA, DGLIC, DIC, and DNIC were parties to an Asset Management Agreement with All Insurance Management Limited (AIM). Pursuant to the agreement, AIM provides investment management services with respect to assets designated by National General and the insurers. This agreement was terminated effective April 1, 2018.

### 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 a letter dated August 1, 2014.

This agreement was amended and restated between the same parties, effective January 1, 2019. In addition, exhibit A of the agreement pertaining to maximum private passenger automobile policy limits, maximum premium volume, commissions, territory, and compensation were revised on February 25, 2020. The INDOI did not disapprove of the amended and restated agreement on January 31, 2019, and Exhibit A on March 20, 2020.

### Producer Agreements

The Company is a party to separate Producer Agreements with DGIA and Right Choice Insurance Agency, Inc. The Producer Agreements govern the production of private passenger automobile insurance in stores, via telemarketing, and on the Internet. "The Company pays commissions to affiliates for various business services. For the years ending December 31, 2019, and 2020, these commissions totaled \$1,810,091 and \$4,184,237, respectively.

## FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2020, the Company and its parent and affiliates are named insured on a Financial Institution Bond Standard Form No. 25 issued to National General. The bond provides a single loss limit of \$10,000,000 and an aggregate loss limit of \$20,000,000 with a deductible of \$100,000. The coverage was provided by Allianz Global Risks US Insurance Company. In addition, the fidelity bond limit was adequate to meet the prescribed minimum coverage specified by the NAIC. Other various interests of the Company are protected by appropriate policies of insurance.

Contrary to the requirements of IC 27-1-7-14, the Company's fidelity bond was not approved by the Company's Board at any time during the examination period or subsequent year. (Please see the "Other Significant Findings" section of this report regarding this issue.)

## STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory and special deposits as of December 31, 2020:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
<b>Deposits for the Benefit of all Policyholders:</b>		
Indiana	\$623,094	\$632,444
<b>All Other Special Deposits:</b>		
Florida	2,517,697	2,555,487
Georgia	36,783	37,524
South Carolina	284,287	304,277
Virginia	396,391	412,608
Aggregate Alien and Other	<u>3,499,158</u>	<u>3,499,158</u>
<b>Total Deposits</b>	<b><u>\$7,357,410</u></b>	<b><u>\$7,441,497</u></b>

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

## REINSURANCE

### **Reinsurance Assumed**

During the period covered by this examination, the Company assumed 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. The Company stopped assuming this business in 2018. 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, an unaffiliated fronting company for which the Company's affiliates sell, service, and administer claims in relation to such business. The Company stopped assuming this business in 2019.

## **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 2017 to 2020 was provided by Gareth L. Kennedy, ACAS, MAAA of EY. Ronald T. Kuehn, FCAS MAAA, CERA, CPCU, ARM, FCA of Huggins Actuarial Services, Inc. provided an Actuarial Opinion for 2016.

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, 2020. 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, 2020.

The 2020 opinion states that the reserve balances: 1) make a reasonable provision in the aggregate for all unpaid loss and loss adjustment expenses, gross, and net, as to reinsurance ceded, under the terms of the Company's contracts and agreements, 2) are consistent with estimates of unpaid losses and loss adjustment expenses computed in accordance with standards and principles established by the Actuarial Standards Board, 3) are computed on the basis of similar general methods as used at December 31, 2019, and 4) meet the requirements of the insurance laws of the State of Indiana.

## **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, 2019, and December 31, 2020 were agreed to each year's 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 total due to rounding.

**DIRECT GENERAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Assets**

**As of December 31, 2020**

	<b>Per Annual Statement</b>	<b>Exam Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Assets:</b>				
Bonds	\$ 47,208,224	\$ -	\$ 47,208,224	\$ 48,321,507
Cash, cash equivalents and short-term investments	5,685,832	-	5,685,832	2,239,534
Subtotals, cash and invested assets	<u>\$ 52,894,056</u>	<u>\$ -</u>	<u>\$ 52,894,056</u>	<u>\$ 50,561,041</u>
Investment income due and accrued	\$ 295,375	\$ -	\$ 295,375	\$ 301,990
Uncollected premiums and agents' balances in the course of collection	28,719,298	-	28,719,298	20,483,111
Deferred premiums, agents' balances and installments booked but deferred and not yet due	151,395,487	-	151,395,487	121,648,812
Funds held by or deposited with reinsured companies	3,499,158	-	3,499,158	3,441,392
Current federal and foreign income tax recoverable and interest thereon	35,023	-	35,023	-
Net deferred tax asset	20,332	-	20,332	15,325
Guaranty funds receivable or on deposit	13,109	-	13,109	13,109
Receivables from parent, subsidiaries and affiliates	-	-	-	7,933,139
Aggregate write-ins for other than invested assets	170,332	-	170,332	170,340
<b>Total Admitted Assets</b>	<b><u>\$ 237,042,170</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 237,042,170</u></b>	<b><u>\$ 204,568,258</u></b>

**DIRECT GENERAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

**As of December 31, 2020**

	<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	\$ -	\$ -	\$ -	\$ 71,415
Ceded reinsurance premiums payable (net of ceding commissions)	184,894,420	-	184,894,420	154,985,596
Payable to parent, subsidiaries, and affiliates	<u>1,875,121</u>	<u>-</u>	<u>1,875,121</u>	<u>-</u>
Total liabilities excluding protected cell liabilities	<u>\$ 186,769,541</u>	<u>\$ -</u>	<u>\$ 186,769,541</u>	<u>\$ 155,057,011</u>
<b>Total liabilities</b>	<b><u>\$ 186,769,541</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 186,769,541</u></b>	<b><u>\$ 155,057,011</u></b>
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)	<u>20,063,089</u>	<u>-</u>	<u>20,063,089</u>	<u>19,301,707</u>
Surplus as regards policyholders	<u>\$ 50,272,629</u>	<u>\$ -</u>	<u>\$ 50,272,629</u>	<u>\$ 49,511,247</u>
<b>Total Liabilities, Surplus and Other Funds</b>	<b><u>\$ 237,042,170</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 237,042,170</u></b>	<b><u>\$ 204,568,258</u></b>

**DIRECT GENERAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Statement of Income**

**As of December 31, 2020**

	<b>Per Annual Statement</b>	<b>Exam Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Investment Income</b>				
Net investment income earned	\$ 1,299,588	\$ -	\$ 1,299,588	\$ 1,502,774
Net realized capital gains or (losses) less capital gains tax	<u>50,667</u>	<u>-</u>	<u>50,667</u>	<u>349,046</u>
<b>Net investment gain (loss)</b>	<b>\$ <u>1,350,255</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>1,350,255</u></b>	<b>\$ <u>1,851,820</u></b>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>\$ 1,350,255</u>	<u>\$ -</u>	<u>\$ 1,350,255</u>	<u>\$ 1,851,820</u>
Net income after dividends, after capital gains tax and before all other federal and foreign income taxes	\$ 1,350,255	\$ -	\$ 1,350,255	\$ 1,851,820
Federal and foreign income taxes incurred	<u>541,609</u>	<u>-</u>	<u>541,609</u>	<u>335,587</u>
<b>Net Income</b>	<b>\$ <u><u>808,646</u></u></b>	<b>\$ <u><u>-</u></u></b>	<b>\$ <u><u>808,646</u></u></b>	<b>\$ <u><u>1,516,233</u></u></b>

**DIRECT GENERAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Account**

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Capital and Surplus Account:</b>					
Surplus as regards policyholders, December 31 prior year	\$ 49,511,247	\$ 50,529,354	\$ 44,783,762	\$ 112,979,559	\$ 124,510,614
Net income	\$ 808,646	1,516,233	3,762,442	21,491,140	1,886,833
Change in net unrealized capital gains and or (losses) less capital gains tax	-	107,417	(93,041)	(9,839,589)	(1,841,521)
Change in net deferred income tax	(25,685)	(349,739)	(402,319)	(12,813,552)	(973,532)
Change in nonadmitted assets	(21,578)	(481,202)	50,924	1,049,380	397,165
Surplus adjustment: Paid in Dividends to stockholders	-	-	-	(40,878,596)	-
Aggregate write-ins for gains and losses in surplus	-	(1,810,817)	2,427,587	-	-
<b>Change in surplus as regards policyholders for the year</b>	<b>\$ 761,383</b>	<b>\$ (1,018,108)</b>	<b>\$ 5,745,593</b>	<b>\$ (68,195,797)</b>	<b>\$ (11,531,055)</b>
Surplus as regards policyholders, December 31 current year	\$ 50,272,629	\$ 49,511,247	\$ 50,529,354	\$ 44,783,762	\$ 112,979,559

## 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, 2020.

### OTHER SIGNIFICANT FINDINGS

#### Fidelity Bond

The Board did not discuss or approve the limits on Fidelity Bond coverage during the period under examination or the subsequent year (See page 9).

**It is recommended that the Board approve the fidelity bond coverage on an annual basis and file it with the INDOI on a timely basis as required by IC 27-1-7-14.**

### 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.

On January 4, 2021, Allstate acquired National General for \$4,000,000,000. National General had owned DGC, which indirectly owned the Company since November 1, 2016. Subsequently, DGC merged into National General Management, effective April 17, 2019. National General and its former parent, AmTrust Financial Services, Inc., were publicly traded companies. Due to the acquisition by Allstate, the Company received an A.M. Best rating of A+ with a stable outlook. In addition, the Company maintained an A.M. Best Rating of A-, with a stable outlook for September 27, 2017, through July 17, 2020.

Written consent of the sole shareholder (indirect owner "Allstate") dated August 13, 2021, elected the following directors effective July 23, 2021:

Aaron B. Kuluk  
Patricia M. Lawicki

Written consent in lieu of a Meeting of the Board dated July 14, 2021, appointed the following director and officers:

Douglas P. Hanes, Director (effective July 6, 2021)  
Rhonda S. Ferguson, Executive Vice President, and Secretary (effective July 6, 2021)  
Daniel G. Gordon - Vice President and Assistant Secretary  
Meghan E. Jauhar - Assistant Secretary

Written consent in lieu of a Meeting of the Board dated August 13, 2021, elected the following officers:

Peter A. Rendall, Chairman of the Board (effective July 23, 2021)  
Patrick J. Macellaro, Vice President and Chief Financial Officer (effective July 23, 2021)

Marilyn W. Hirsch, Senior Vice President and Treasurer (effective July 23, 2021)  
Joseph M. Washburn, Vice President and Assistant Treasurer  
Carol E. Lundahl, Vice President and Assistant Treasurer

Except for specific Board members and executive management changes mentioned above, there are no anticipated changes to their business plan. Therefore, all policyholders will remain policyholders under their Direct General policies.

The Company also filed a Form D with the INDOI pertaining to three (3) Allstate affiliated agreements 1) Amended and Restated Service and Expense Agreement, 2) Investment Management Agreement, and 3) Tax Sharing Agreement. By a letter dated February 11, 2021, the INDOI did not disapprove of these agreements.

### 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, 2020**.

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 2020 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, 2020**, 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 12<sup>th</sup> day of May, 2022, before me personally appeared, David L. Daulton and Jerry Ehlers 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 708053

