



MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001
WOOLFOLK BUILDING
JACKSON, MISSISSIPPI 39201
www.mid.ms.gov

MAILING ADDRESS
Post Office Box 79
Jackson, Mississippi 39205-0079
TELEPHONE: (601) 359-3569
FAX: (601) 359-2474

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

RICKY DAVIS
State Chief Deputy Fire Marshal

June 30, 2017

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Mr. Robert Karfunkel, President
Direct General Insurance Company of Mississippi
1281 Murfreesboro Road
Nashville TN 37217

RE: Report of Examination as of December 31, 2015

Dear Mr. Karfunkel:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

BY


Christina J. Kelsey
Senior Attorney

MC/CJK/bs
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI**

**IN RE: REPORT OF EXAMINATION OF DIRECT GENERAL
INSURANCE COMPANY OF MISSISSIPPI**

CAUSE NO. 17-7219

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011).

II.

That Direct General Insurance Company of Mississippi is a Mississippi-domiciled Company licensed to write Accident & Health; Automobile Physical Damage/Liability; Casualty/Liability; Fire/Allied Lines; Home/Farm Owners; Inland Marine; Plate Glass; and Trip Accident and Baggage coverages.

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of Direct General Insurance Company of Mississippi and appointed David Daulton, Examiner-In-Charge, to conduct said examination.

IV.

That on or about May 3, 2017, the draft Report of Examination concerning Direct General Insurance Company of Mississippi for the period of January 1, 2013 through December 31, 2015, was submitted to the Department by the Examiner-In-Charge, David Daulton.

V.

That on or about May 24, 2017, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. The Company responded in a letter dated June 28, 2017, received June 29, 2017.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of Direct General Insurance Company of Mississippi, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, Direct General Insurance Company of Mississippi shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that Direct General Insurance Company of Mississippi take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

SO ORDERED, this the 30th day of June 2017.



J. Mark Haire

J. MARK HAIRE
DEPUTY COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 30th day of June 2017, to:

Mr. Robert Karfunkel, President
Direct General Insurance Company of Mississippi
1281 Murfreesboro Road
Nashville, TN 37217



Christina J. Kelsey
Senior Attorney

Christina J. Kelsey
Senior Attorney
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 9853



Mississippi Insurance Department

Report of Examination

of

**DIRECT GENERAL INSURANCE COMPANY
OF MISSISSIPPI**

as of

December 31, 2015

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EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Indiana,

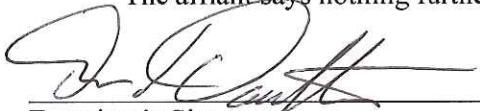
County of Marion,

David Daulton, being duly sworn, states as follows:



1. I have authority to represent the Mississippi Insurance Department in the examination of Direct General Insurance Company of Mississippi as of December 31, 2015.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Direct General Insurance Company of Mississippi was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.


Examiner's Signature

Subscribed and sworn before me by Donna Rohrabough on this 24th day of May, 2017.

(SEAL)


Notary Public



My commission expires 05/06/2018 [date].

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of
Insurance

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FAX: (601) 576-2568



April 19, 2017

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building
501 North West Street
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2015, of the affairs and financial condition of:

Direct General Insurance Company of Mississippi

4734 North State Street
Jackson, MS 39206

License #	NAIC Group #	NAIC #	FEETS#	MATS#
9700042	1213	10889	10889-MS-2015-4	MS-MS099-9

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Nashville, Tennessee at the principal administrative office of the Company. The report of examination is herewith submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of Direct General Insurance Company of Mississippi (“DGICMS”). The last exam was completed as of December 31, 2012. This examination covers the period from January 1, 2013 through December 31, 2015.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of DGICMS, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of DGICMS were considered in accordance with the risk-focused examination process.

COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

There were no comments on financial statements from the previous examination report.

HISTORY OF THE COMPANY

On October 10, 1997, DGICMS was incorporated under the laws of the State of Mississippi and commenced business on May 7, 1998 with its principal office being located in Nashville, Tennessee.

The original Articles of Incorporation authorized 100,000 shares of \$50 par value capital stock. DGICMS’s initial capitalization consisted of Direct General Corporation (“DGC”) purchasing 12,000 shares of the authorized capital stock for an aggregate purchase price of \$2,002,698. On December 28, 2001, the Articles of Incorporation were amended to increase DGICMS’s capital stock par value to \$100 per share.

Effective December 31, 2001, all outstanding shares of DGICMS were contributed in the form of a capital contribution from DGC to one of its property and casualty insurance subsidiaries, Direct General Insurance Company (“DGIC”).

On March 28, 2007, the Mississippi Insurance Department (“MID”) approved DGC’s merger with Elara Holdings, Inc. (“Elara”), a Delaware corporation. The ultimate controlling entities of Elara are Calera Capital Investors III, L.L.C and TPG Partners V, L.P. Under the terms of this merger, Elara acquired all of the outstanding common stock of DGC. This merger removed DGC and its affiliates from U.S. Security and Exchange Commission regulatory authority since they are no longer public.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws, and amendments thereto were reviewed and duly applied in other sections of this report where appropriate. Minutes of the meetings of the Stockholders and the Board of Directors (“Board”), as recorded during the period covered by this examination, were reviewed and appeared to be complete and in order with regard to actions brought up at the meetings for deliberation and appropriate action, which included the approval and support of DGICMS’s transactions and events. It was noted that the annual meetings and other regular Board meetings were held in accordance with DGICMS’s Bylaws. DGICMS made no amendments to its Articles of Incorporation or Bylaws during the examination period.

MANAGEMENT AND CONTROL

Capital Stock

As of December 31, 2015, DGICMS had issued and outstanding twelve thousand (12,000) shares of common capital stock with a par value of \$100 per share. DGIC owned 100% of the outstanding shares. During the examination period, \$1,950,000 in dividends were paid to DGIC.

Board of Directors

The Articles of Incorporation and Bylaws vest the management and control of DGICMS’s business affairs with the Board. The members of the duly elected Board as of December 31, 2015, along with their place of residence, year elected, and principal occupation, were as follows:

Name and Residence	Year Elected/Appointed	Principal Occupation
John W. Mullen Nashville, Tennessee	2011	Chairman, CEO, & President Direct General Insurance Company of Mississippi
John T. Hagely Brentwood, Tennessee	2007	EVP & CFO Direct General Insurance Company of Mississippi
John F. Campbell, Jr. Murfreesboro, Tennessee	2012	EVP & COO Direct General Insurance Company of Mississippi

Committees

DGICMS does not have appointed committees. The following committees of Elara Holdings, Inc. also serve as committees for DGICMS as of December 31, 2015:

Committee Structure

Compensation/Governance	Audit	Investment
Mark Williamson (Chairman)	Phillip Guthrie (Chairman)	Richard Shifter (Chairman)
Robert Sandler	Craig Kelly	Benjamin Abadi
Richard Shifter	Benjamin Abadi	Phillip Guthrie

Officers

Name	Year Elected/Appointed	Title
John W. Mullen	2011	Chairman, CEO, & President
John F. Campbell, Jr.	2011	EVP & Chief Operations Officer
John T. Hagely	2007	EVP & Chief Financial Officer
Sharon K. Roberson	2015	SVP, General Counsel, & Secretary
Austin G. Bonn	2011	SVP Store Sales Channel
Ann L. Davids	2013	SVP & Chief Marketing Officer
Gregory A. Hayes	2013	SVP Finance
Peter A. Hansen	2014	SVP Claims & Chief Claims Officer
William M. Smith, III	2011	SVP Human Resources
Jonathan G. Walters	2008	SVP & Chief Information Officer
Jeffrey R. Bankston	2012	VP Program Management
Randy C. Chetko	2012	VP Application Development
Marc E. DiGiacomo	2010	VP Product Management
Kenneth A. Hampton	2011	VP Operations & Customer Experience
Brian T. Hanrahan	2007	VP Actuarial Group
Josh L. Jarrett	2010	VP Product Management
Michael R. Neal	2013	VP Audit & Casualty
Jose L. Rivas	2013	VP Claims
Jobie G. Williams	2010	VP & Treasurer
Kelly K. Gray	2011	Assistant Secretary
Constance A. Collins	1997	Assistant Secretary
LaJoy N. James	2012	Assistant Secretary

Conflict of Interest

DGICMS has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any Director, Officer, or key employee, which is likely to conflict with their official duties. Signed statements for Officers and Directors serving as of December 31, 2015, were reviewed without exception.

Corporate Governance

DGICMS has no employees. All operations of DGICMS are handled by related parties through written agreements.

The minutes of the meetings of the Stockholders and Board for the period covered by the examination were reviewed and appeared to be complete and in order with regard to recording action on matters brought up at these meetings for deliberation, and included the approval and support of DGICMS's transactions and events.

Management activities reviewed and approved by the Board include performance/financial reports, legal and regulatory updates, reinsurance programs, market conduct reports, company performance, budgets, claims, investment results, and other reports. Each member of the Board also serves as an executive officer and/or on the Board for certain affiliated companies in the holding company organization.

Management reviews various data in an effort to identify trends and ensure accurate disclosure in the financial statements. Budget and actual operating results are compared monthly by Management.

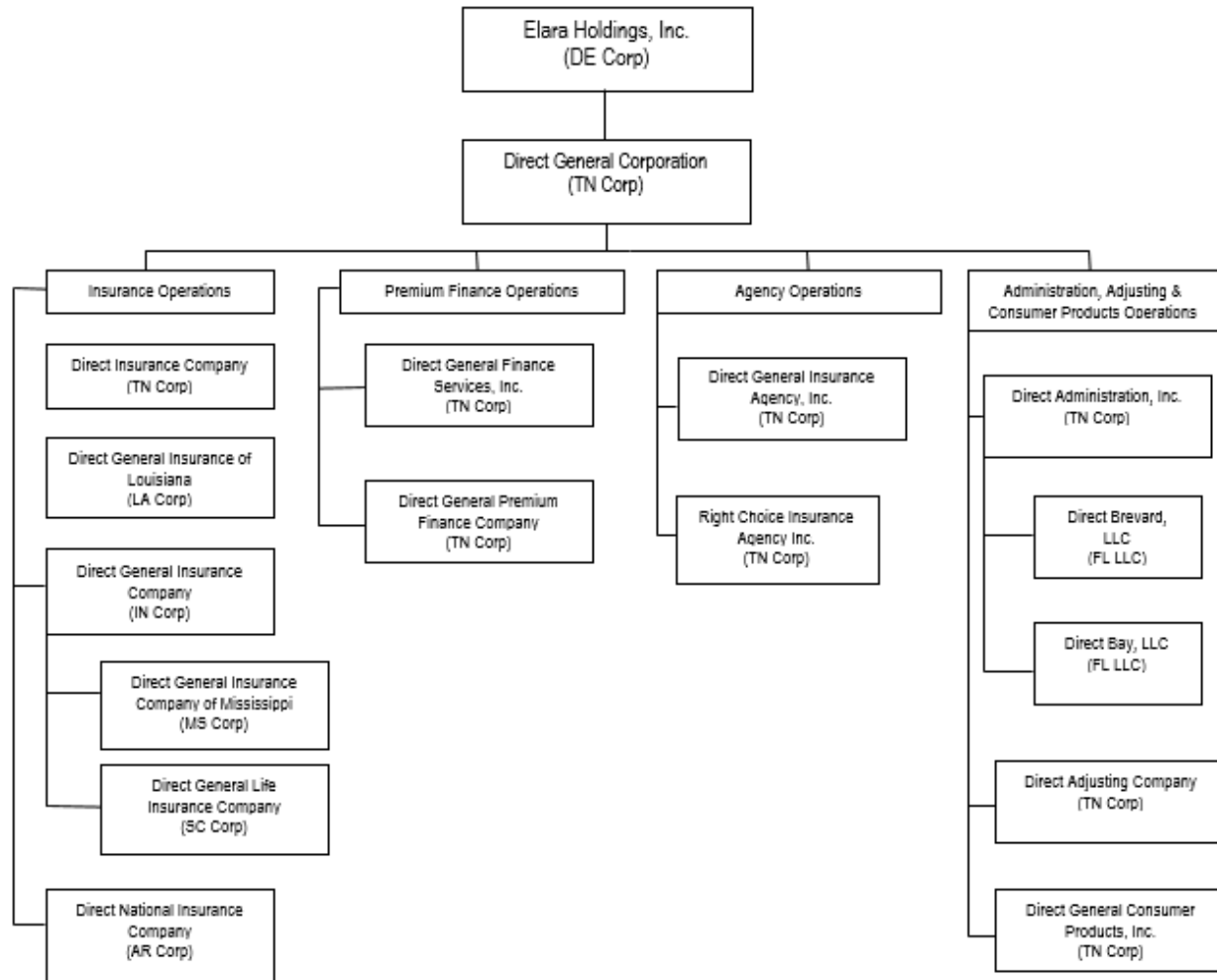
The Chief Executive Officer & President meets with his executive staff on a weekly basis facilitating the dissemination of information on key issues impacting the organization. The Chief Executive Officer & President also sits on the parent company's Board so they are able to report on matters directly to and from the Board as appropriate.

HOLDING COMPANY STRUCTURE

DGICMS was a member of an insurance holding company system as defined with Miss. Code Ann. § 83-6-1. Holding Company Registration Statements were filed during the examination period with MID in accordance with Miss. Code Ann. § 83-6-5 and Miss. Code Ann. § 83-6-9.

Organizational Chart

The following organizational chart depicts DGICMS's relationship within the holding company system:



Parent and Affiliated Companies

Elara Holdings, Inc. (Elara) is a privately-held financial services holding company whose principal operating subsidiaries provide non-standard personal automobile insurance, term life insurance, premium finance and other consumer products and services primarily in the southeastern United States. Elara was formed in 2006 to acquire all of the outstanding common stock of DGC, which was publicly traded prior to the transaction. TPG Partners V, L.P., Calera Capital Partners III, L.P. and Calera X, LLC are the owners of greater than 10% of the issued and outstanding stock of Elara as of December 31, 2015.

Elara owns five (5) property/casualty insurance companies, one (1) life/health insurance company, two (2) premium companies, two (2) insurance agencies, one (1) administrative service company, and one (1) company that provides non-insurance consumer products and services. Elara had no assets, liabilities, or operations prior to the acquisition of DGC on March 30, 2007. As a result, Elara essentially continued as the same organization after the transaction.

Direct General Corporation (DGC) was incorporated on September 28, 1993, for the purpose of serving as the ultimate parent company for Direct General's Holding Company System. Through its subsidiaries, DGC's core business involved the issuance of nonstandard personal automobile insurance policies throughout most of the southeastern United States. Through its premium finance operations, the premium charges for the majority of the insurance policies sold by DGICMS were financed with collateral being the related unearned premium associated with the policy sold.

Direct General Insurance Company (DGIC) was incorporated under the laws of the State of Florida on December 15, 1990 as Independent Property and Casualty Insurance Company ("IPC"), and began operations on January 1, 1991. Effective March 6, 1997, in contemplation of DGICMS being sold to DGC, IPC redomesticated to the State of Tennessee. On March 14, 1997, DGC acquired all of the outstanding capital stock of IPC, and its name was changed to its present title. Effective December 27, 2000, DGIC was redomesticated to South Carolina. Effective December 20, 2007, DGIC was redomesticated from South Carolina to Indiana. As of December 31, 2009, DGIC was authorized to write one (1) or more lines of business in the States of Alabama, California, Florida, Georgia, Illinois, Indiana, Kansas, Mississippi, Missouri, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, and Virginia.

Affiliated and Related Party Transactions

Below is a description of the intercompany agreements to which DGICMS is a party.

Tax Allocation Agreement

DGC's subsidiaries, that are greater than 80% owned, are consolidated for federal income tax purposes. A Tax Allocation Agreement was dated September 14, 1995, with supplements to the agreement dated September 10, 1996, November 9, 2000, December 31, 2007 and September 20, 2012. The 2012 supplement was drafted under I.R.C. sec. 816 to add Direct General Life Insurance Company and Direct Life Insurance Company as participants under the agreement, thereby covering the 2007 tax year and to clarify that Elara replaced DGC as the ultimate parent company as of March 2007. The MID approved DGICMS's September 20, 2012 Form D Filing and revised agreement by letter dated October 9, 2012. Amendment No. 1, effective May 1, 2014, was filed via Form D filing dated March 26, 2015 and approved by a letter from the MID dated May 15, 2015. This amendment removed Direct Life Insurance Company (DLIC) which was sold and due to the consolidation of Direct General Insurance Agencies.

Amended and Restated Intercompany Services and Cost Allocation Agreement

DGICMS was party to an Intercompany Services and Cost Allocation Agreement with DGC and its affiliates, whereby the affiliates of DGICMS provided underwriting, policy issuance, claims settlement, premium financing, and administrative services for DGICMS. The Amended and Restated Intercompany Services and Cost Allocation Agreement was submitted to the MID under Form D dated October 20, 2011, and approved by a letter dated December 2, 2011. Amendment No. 1 was entered effective as of May 15, 2014 and was filed via Form D filing on or about April 20, 2015. The MID approved the revisions by a letter dated May 15, 2015. Under this agreement, DGICMS paid a total of \$7,227,715 and \$6,742,713 for years 2014 and 2015, respectively.

Reinsurance Settlement Agreement

DGICMS was party to a Reinsurance Settlement Agreement with other property and casualty affiliates dated October 1, 2001. The purpose of this agreement was to ensure that third party reinsurers, under the Direct General Group 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 reinsurers, thereby ensuring that each participating insurer in the Direct General Group obtains the proceeds to which it is entitled under applicable reinsurance agreements. DGICMS filed a copy of the Reinsurance Settlement Agreement and a Notice of Prior Transaction on Form D with the MID as of June 30, 2006.

Intercompany Producer Agreement

DGICMS was party to an Intercompany Producer Agreement with its affiliated insurance agencies, Direct General Insurance Agency of Mississippi, Inc. and Right Choice Insurance Agency, whereby management could pay commission of up to 15% on written premiums to its agencies. Direct General Insurance Agency of Mississippi, Inc. merged into Direct General Insurance Agency, Inc. and DGICMS entered into a new agreement dated May 1, 2014.

Intercompany Premium Finance Account Settlement Agreement

DGICMS and Direct General Group premium finance companies are party to an Intercompany Premium Finance Account Settlement Agreement. This agreement documents the duties and obligations between the parties relating to the settlement of accounts for financed insurance premiums and return unearned premium arising out of insurance premium finance agreements. DGICMS filed a copy of the Intercompany Premium Finance Account Settlement Agreement and a Notice of Prior Transaction on Form D with the MID on June 30, 2006. In June of 2011, DGICMS switched from premium financing to premium installment billing. At the end of the exam period, there were no policies under premium financing. Amendment No. 1 to this agreement was made effective May 1, 2014. The Amendment No 1 removed DLIC as party to the Agreement. DLIC was sold to an unaffiliated third party on December 23, 2013, and is therefore no longer an affiliated member of the holding company group.

Affiliated and Related-Party Transactions Not Approved by MID

As part of Direct General Groups' cash management program, which amounted to \$541,989,890 in 2015, cash was transferred monthly to and from the various companies within the group without consideration for the provisions of the inter-company agreements or the requirements of the Insurance Holding Company Statutes. This practice was contrary to the provisions of the Inter-company Producer Agreement.

See "COMMENTS AND RECOMMENDATIONS" section of the examination report.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

Employees of the Direct General Group have the opportunity to participate in a qualified defined contribution plan that is sponsored by an affiliate. In addition to pension benefits, the affiliate provides certain health and dental benefits.

TERRITORY AND PLAN OF OPERATION

DGICMS commenced writing nonstandard private passenger automobile insurance policies in Mississippi in May 1998 and in Kentucky in August 2002. These policies, which are generally issued for the minimum limits of coverage required by state laws, provide coverage to drivers who cannot obtain insurance from standard carriers due to a variety of factors, including the lack of flexible payment plan, the failure to maintain continuous coverage, age, prior accidents, driving violations, occupation and type of vehicle. Affiliate insurance agencies sell DGICMS's products directly through neighborhood sales offices. In the early part of 2006, DGICMS introduced telephone sales as a new distribution system. In May 2007, DGICMS introduced web sales as another distribution system.

DGICMS stopped writing business in Kentucky after the fourth quarter of 2010 due to extraordinary losses associated with claims fraud. In June of 2011, DGICMS switched from premium financing to installment billing.

GROWTH OF COMPANY

The review of the growth of DGICMS was performed based on balances as reported in the annual statements filed with the MID during the period under examination.

	2015	2014	2013
Total admitted assets	\$33,251,009	\$31,788,652	\$31,983,441
Total liabilities	21,999,559	21,106,483	20,245,293
Total capital and surplus	11,251,450	10,682,169	11,738,148
Net cash from operations	\$(374,222)	\$1,036,554	\$(1,651,314)
Total adjusted capital	11,251,450	10,682,169	11,738,148
Authorized control level risk-based	1,397,833	2,010,882	2,058,023
Direct premiums written	\$27,197,991	\$24,755,133	\$23,301,343
Assumed premiums written	-	-	-
Ceded premiums written	79,292	83,181	234,005
Net written premiums	27,118,699	24,671,952	23,067,338
Net underwriting gain (loss)	\$(1,597,680)	\$(1,474,305)	\$(1,635,630)
Net investment income	455,375	460,535	721,357
Other income	797,371	1,393,640	1,716,676
Net income	(145,576)	278,053	712,153
Net loss ratio	81.3%	73.3%	73.3%
Expense ratio	24.2%	31.5%	33.1%
Investment yield	2.6%	2.5%	3.1%

REINSURANCE

Reinsurance Assumed

As of December 31, 2015, DGICMS did not assume any reinsurance.

Reinsurance Ceded

DGICMS maintained joint reinsurance agreements with all property and casualty members of the Direct General Group. Effective January 1, 2015, DGICMS 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 the co-participation is 5%. The treaty covers in force, new, renewed, and assumed private passenger automobile physical damage business with a maximum value per vehicle covered of \$75,000. The Company reported the following reinsurer's participating in the treaty for 2015:

<u>Name of Reinsurers</u>	<u>Participation Percent</u>	<u>Authorized/Unauthorized</u>
Endurance Specialty Insurance Ltd	30%	Unauthorized
QBE Reinsurance Corporation	10%	Authorized
R+V Versicherung AG	10%	Unauthorized
XL Re Ltd	10%	Unauthorized
Lloyds Amlin Syndicate #2001	6.5%	Authorized
Lloyds Cathedral Syndicate #2010	10%	Authorized
Lloyds Brit Syndicate # 2987	13.5%	Authorized

Reinsurance Intermediary

DGICMS used the services of Guy Carpenter and Company, Inc., a reinsurance intermediary, to place reinsurance with various reinsurers. Guy Carpenter and Company, Inc. was licensed and authorized by the MID and had the authority to procure placement certificates from various reinsurers in DGICMS's reinsurance ceded program.

ACCOUNTS AND RECORDS

The 2014 and 2015 trial balances of DGICMS's accounts were traced to the balance sheet of DGICMS's statutory annual statements filed with the MID. DGICMS was audited annually by an independent CPA firm.

STATUTORY DEPOSITS

DGICMS's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31(2). The following chart displays DGICMS's deposits as of December 31, 2015:

Description of Security	State Deposited	Book Value	Fair Value
Oxford Miss School District	MS	\$370,000	\$398,231
Miss Dev Bk SPL OLB Rev	MS	130,212	130,939
Miss Home Corp Rev	MS	84,844	86,369
Miss ST Univ EDL BL Rev	MS	316,100	331,210
Ridgeland Miss Tax Increment	MS	45,476	47,355
Univ Southern Miss EDL Bld Rev	MS	35,115	35,540
MS Dev Bk SPL Obl (Cash)	MS	130,000	130,000
Total for all states		\$1,111,747	\$1,159,644

FINANCIAL STATEMENTS

Introduction

The following financial statements consists of a Statement of Assets, Liabilities, Surplus and Other Funds – Statutory at December 31, 2015, a Statement of Income – Statutory for year ended December 31, 2015, a Reconciliation of Capital and Surplus – Statutory for examination period ended 2015, and a Reconciliation of Examination Adjustment to Surplus – Statutory at December 31, 2015.

The following financial statements are based on the statutory financial statements filed by DGICMS with the MID and present the financial condition of DGICMS for the period ending December 31, 2015.

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2015**

Assets		
Bonds	\$	14,642,727
Cash and short-term investments		2,825,416
Receivable for securities		103
Investment income due and accrued		145,692
Uncollected premiums and agents' balances in the course of collection		2,156,503
Deferred premiums, agents' balances and installments booked but deferred and not yet due		11,995,661
Current federal and foreign income tax recoverable		199,068
Net deferred tax asset		1,151,171
Receivable from parent, subsidiaries and affiliates		36,835
Aggregate write-ins for other than invested assets		97,833
Total assets	\$	33,251,009
Liabilities, Capital and Surplus		
Losses	\$	7,867,609
Loss adjustment expenses		290,575
Other expenses		49,990
Current federal and foreign income taxes		84,988
Unearned premiums		13,134,982
Advance premium		28,974
Payable to parent, subsidiaries, or affiliates		542,441
Total liabilities	\$	21,999,559
Common capital stock		1,200,000
Gross paid in and contributed Surplus		5,852,698
Unassigned funds (surplus)		4,198,752
Total capital and surplus		11,251,450
Total liabilities, capital and surplus	\$	33,251,009

**STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2015**

Underwriting Income	
Premium earned	\$ 26,460,590
DEDUCTIONS	
Losses incurred	18,579,597
Loss adjustment expenses incurred	2,928,196
Other underwriting expenses incurred	6,550,477
Net underwriting gain or (loss)	(1,597,680)
Investment Income	
Net investment income earned	454,864
Net realized capital gains or (losses) less capital gains tax	511
Net investment gain (loss)	455,375
Other Income	
Net gain (loss) from agents' or premium balances charged off	(1,321,688)
Finance and service charges not included in premiums	1,530,032
Aggregate write-ins for miscellaneous income	589,027
Total Other Income	797,371
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(344,934)
Net income after dividends, capital gains tax and before all other federal and foreign income tax	(344,934)
Federal and foreign income taxes incurred	(199,358)
Net income	\$ (145,576)

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE EXAMINATION PERIOD ENDED DECEMBER 31, 2015**

	2015	2014	2013
Surplus as regards policyholders, December 31 prior year	\$ 10,682,169	\$ 11,738,148	\$ 12,039,420
Net income	(145,576)	278,053	712,153
Change in net deferred income tax	8,179	75,468	(51,388)
Change in nonadmitted assets	706,678	(659,500)	237,963
Cumulative effect of changes in accounting principles	-	-	-
Dividends to stockholders	-	(750,000)	(1,200,000)
Aggregate write-ins for gains and losses in surplus	-	-	-
Change in Surplus as regards policyholders for the year	569,281	(1,055,979)	(301,272)
Surplus as regards policyholders, December 31 current year	\$ 11,251,450	\$ 10,682,169	\$ 11,738,148

RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS DECEMBER 31, 2015

There were no Examination adjustments made to the assets, liabilities, or surplus balances reported by DGICMS for the year ending December 31, 2015. The surplus as regards to policyholders, which totaled \$11,251,450 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. § 83-19-31.

MARKET CONDUCT ACTIVITIES

A full scope market conduct examination was not performed; however specific areas of DGICMS market conduct activities were reviewed. The specific areas included those items indicated below.

Policyholder Services

DGICMS maintained a valid complaint log during the period under examination. No exceptions were noted with regard to policyholder services.

Underwriting and Rating

Underwriting practices were reviewed for underwriting compliance, cancellation compliance and underwriting compliance for discrimination practices. No exceptions were noted with regard to the underwriting and rating area.

Claims Handling

Claim files were reviewed for general indicators of policyholder treatment. No exceptions were noted with regard to claims handling area.

Producer Licensing

The examination team obtained a listing of all new business written by DGICMS in 2015 and 2016. There was one (1) issue noted with testing relating to business being written by terminated agents or agents not designated by the MID. During our testing of producer terminations, it was noted that this agent wrote twelve (12) policies after their license had expired. See “**COMMENTS AND RECOMMENDATIONS**” section of the examination report.

Privacy

Privacy notices were sent to DGICMS’s policyholders. No exceptions were noted in the area of privacy.

COMMITMENTS AND CONTINGENT LIABILITIES

DGICMS's management and attorneys confirmed that there were no pending non-policy related litigations, unreported commitments, or contingent liabilities incurred through the examination date.

SUBSEQUENT EVENTS

There were subsequent events 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 Holdings, Inc. Group. NGHC is a Delaware Corporation and their principal executive offices are located at 59 Maiden Lane, 38th 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 of Directors of the insurance entities within the Direct General Group were replaced by Directors appointed by NGHC, with the exception of Gregory L. Thomas, the Indiana resident director for Direct General Insurance Company. Except for certain changes in executive management, there are no anticipated changes to their business plan. All of the policyholders will remain policyholders under their Direct General policies.

Reinsurance Agreement

Effective January 1, 2017, the five (5) P&C company subsidiaries of DGC (Ceding Companies) entered into a Reinsurance Agreement with Integon National Insurance Company ("Integon National") and National General Management Corp. The Ceding Companies cede and transfer to Integon National which reinsures and assumes as its own obligation 100% of the Ceding Companies' respective books of business in force as of and subsequent to the effective date.

Management Services Agreement

Effective November 1, 2016, the six (6) insurance company subsidiaries of DGC (Companies) entered into a Management Services Agreement with National General Management Corp. (Administrator). The Administrator will provide certain underwriting duties, claims services, actuarial services, policyholder services, accounting, information technology and certain other administrative functions. The Administrator acts as underwriting manager for the Companies primarily to underwrite, rate, quote, bind, accept, and reject insurance risks. The compensation for

providing the services shall be based on actual cost without a profit factor being built into that cost and the indirect and shared expenses shall be allocated in accordance with a method of cost allocation in conformity with SSAP No. 70.

Tax Allocation Agreement

Effective November 1, 2016, the six (6) insurance company subsidiaries of DGC 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 shall be based on the amount of its tax liability or entitlement to a refund calculated on a separate return basis and recorded accordingly in the corresponding period.

Asset Management Agreement

Effective November 1, 2016, the six (6) insurance company subsidiaries of DGC entered into an Asset Management Agreement with All Insurance Management Limited (AIM), a Bermuda corporation. AIM shall perform investment management services on behalf of each company in accordance with each company's investment guidelines.

Custodian Asset Transfer

On January 27, 2017, DGICMS transferred their assets from US. National Bank to JP Morgan Chase Bank.

COMMENTS AND RECOMMENDATIONS

1. Terminated Agent Producing Business

The exam team obtained a listing of all new business written by DGICMS in 2015 and 2016. There was one (1) issue noted with testing relating to business being written by terminated agents or agents not designated by the MID. During our testing of producer terminations, it was noted that this agent wrote twelve (12) policies after their license had expired.

It is recommended DGICMS monitor agent appointments to effectively comply with Miss. Code Ann. § 83-17-75. (Page 18)

2. Affiliated and Related-Party Transactions Not Approved by MID

As part of Direct General Groups' cash management program, which amounted to \$541,989,890 in 2015, cash was transferred monthly to and from the various companies within the group without consideration for the provisions of the inter-company agreements or the requirements of the Insurance Holding Company Statutes. This practice was contrary to the provisions of the Inter-

company Producer Agreement.

Recommendation:

It is recommended that the companies within the Direct General Group comply with the provisions of the Inter-company Producer Agreement pertaining to record keeping and fiduciary capacity of its premiums. It is also recommended that DGICMS comply with the provisions of Miss. Code Ann. § 83-6-21, as the respective provisions of the Insurance Code require 30 days advance notification prior to entering such transactions. Furthermore, it is recommended that DGICMS comply with Miss. Code Ann. § 83-6-5 and Miss. Code Ann. § 83-6-9, by disclosing such transactions under item 5(A) of the Annual Holding Company Registration Statement filed by Elara with the MID.


ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-in-Charge:	David Daulton, CFE
Supervising Examiner:	Cecil W. Thomas, CFE, CIE, MCM
Sr. Examiner:	Aejaz Palejwala, CFE
Sr.Examiner:	Ed Fossa. CFE
Information Technology Specialist:	Brandon Thomas, HISP, MCM
Actuary :	Robert Daniel, ACAS, MAAA

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



David Daulton, CFE
Examiner-in-Charge

DIRECT GENERAL INSURANCE COMPANY OF MISSISSIPPI

1281 Murfreesboro Road ♦ Nashville, Tennessee 37217
Phone: 615.399.4700 ♦ Fax: 615.366.3722



June 28, 2017

Mr. Mark Cooley
Chief Examiner, Financial & Market Regulation Division
Mississippi Insurance Department
501 North West Street
1001 Woolfolk Building, Suite A
Jackson, MS 39201

RE: Direct General Insurance Company of Mississippi
Report of Examination as of December 31, 2015

Dear Mr. Cooley:

On behalf of Direct General Insurance Company of Mississippi (the "Company" and "DGICMS"), please accept this letter with respect to the comments and recommendations contained in the Examination Report dated May 24, 2017 (the "Report"). The comments and recommendations from the Report and our responses are as follows:

COMMENTS AND RECOMMENDATIONS (EXCERPT):

1. Terminated Agent Producing Business

It is recommended DGICMS monitor agent appointments to effectively comply with Miss. Code Ann. § 83-17-75.

COMPANY RESPONSE: We are working with our Sales management, Human Resources and Licensing teams to ensure existing procedures of identifying and monitoring agent appointments are followed consistently and in a timely manner.

2. Affiliated and Related-Party Transactions Not Approved by MID

It is recommended that the companies within the Direct General Group comply with the provisions of the Inter-company Producer Agreement pertaining to record keeping and fiduciary capacity of its premiums. It is also recommended that DGICMS comply with provisions of Miss. Code Ann. § 83-6-21, as the respective provisions of the Insurance Code require 30 days advance notification prior to entering such transactions. Furthermore, it is

recommended that DGICMS comply with Miss. Code Ann. § 83-6-5 and Miss. Code Ann. §83-6-9, by disclosing such transactions under items 5(A) of the Annual Registration filed by Elara Holdings, Inc. with the MID.

COMPANY RESPONSE: Within Direct General Groups' cash management program, there were transfers between the agency and other non-insurance affiliates which were not specifically addressed in the Inter-Company agreements. The transfers were routinely settled within 30 days. (The \$541,989,890 amount identified in the report represents total premium collections for 2015 - not the amounts transferred.)

As a result of our new corporate structure under National General Holdings Corporation, these transfers have been discontinued.

The above is respectfully submitted for inclusion in the Examination Report of the Company. It is the Company's understanding that a copy of this document will be included as part of the Examination Report package to be filed with regulatory authorities and other interested parties.

If you have questions or need additional information, please contact me directly at (336) 435-2560.

Sincerely,



Donald Bolar

Chief Accounting Officer