

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

In re:)
)
Direct General Insurance Company (NAIC #42781)) Examination No. 0812-22-TGT
And)
Direct National Insurance Company (NAIC #23736))

CURATIVE ORDER OF THE DIRECTOR

NOW, on this 30th day of DECEMBER, 2009, Director John M. Huff (hereafter referred to as the "Director"), after consideration and review of the market conduct examination report of Direct General Insurance Company (NAIC #42781) and Direct National Insurance Company (NAIC #23736) (hereafter referred to as the "Company"), report number 0812-22-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3(3)(a), RSMo, does hereby adopt such report as filed. After consideration and review of such report, relevant workpapers, and any written submissions or rebuttals, the findings and conclusions of such report are deemed to be the Director's findings and conclusions accompanying this order pursuant to §374.205.3(4), RSMo.

This order, issued pursuant to §374.205.3, RSMo and §374.046.15. RSMo (Cum. Supp. 2008), is in the public interest.

IT IS THEREFORE ORDERED that the Company shall CURE the violations of law, regulations or prior orders revealed in such report and shall take remedial action to bring the Company into compliance with the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times, including, but not limited to, taking the following actions:

1. The Company shall take all needed steps to assure that its termination of coverage notices are sufficiently clear and specific so that it identifies the basis for the Company's decision without a need for further inquiry, as required by §379.120, RSMo.

2. The Company shall take all needed steps to assure that the sales tax credit affidavit used by the Company and provided to its claimants are accurate and properly maintained by the Company, as required by §144.027, RSMo, and 20 CSR 100-8.040(3)(B)3.

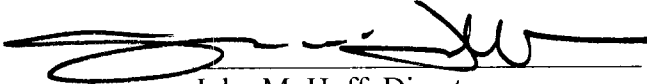
3. The Company shall ensure that its books, records, documents, and other business records are in an order such that the insurer's claims practices can be readily ascertained by the Department as required by 20 CSR 100-8.040.

4. The Company shall ensure that it responds to all future examiner criticisms within 10 calendar days of the requests during all future market conduct examinations, as required by §374.205.2(2), RSMo, and 20 CSR 100-8.040.

5. Documentation of all remedial actions taken by the Company to implement compliance with the terms of this Order and to assure that the errors noted in the examination report do not recur, including explaining the steps taken and the results of such actions, shall be filed with the Director within 30 days of the entry of this Order.

So Adopted, Found, Concluded and Ordered.

12.30.09
Date


John M. Huff, Director

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION



FINAL MARKET CONDUCT EXAMINATION REPORT
Of the Property and Casualty Business of

Direct General Insurance Company
NAIC # 42781

and

Direct National Insurance Company
NAIC # 23736

MISSOURI EXAMINATION # 0812-22-TGT

NAIC EXAM TRACKING SYSTEM # MO268-M94

December 23, 2009

Home Office
1281 Murfreesboro Road
Nashville, TN 37217

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FOREWORD

This is a targeted market conduct examination report of Direct General Insurance Company, (NAIC Code # 42781) and Direct National Insurance Company (NAIC Code # 23736). This examination was conducted at the offices of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products or files does not constitute approval thereof by the DIFP.

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- “Company” refers to Direct General Insurance Company and Direct National Insurance Company;
- “CSR” refers to the Missouri Code of State Regulation;
- “Direct” refers to Direct General Insurance Company and Direct National Insurance Company;
- “DIFP” refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “Director” refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “NAIC” refers to the National Association of Insurance Commissioners; and
- “RSMo” refers to the Revised Statutes of Missouri. All citations are to RSMo 2000, unless otherwise specified.

SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§374.110, 374.190, 374.205, 375.445, 375.938, and 375.1009, RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DIFP regulations and to consider whether the Company's operations are consistent with the public interest. The primary period covered by this review is January 1, 2008, through December 31, 2008, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination was a targeted examination involving the following business functions and lines of business: private passenger auto underwriting and terminations, private passenger auto underwriting, private passenger auto claims, and complaints.

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark for underwriting practices is 10%. The NAIC benchmark error rate for claims practices is seven percent (7%) and for other trade practices is ten percent (10%). Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized, however, for reviews not applying the general business practice standard.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

COMPANY PROFILE

The following company profile was provided to the examiners by the Company.

“Direct General Insurance Company (“DGIC” or “the Company”) was incorporated under the laws of the state of Florida on December 15, 1990, as Independent Property and Casualty Insurance Company, and began operations on January 1, 1991. On March 6, 1997, in contemplation of the company being sold to Direct General Corporation, the Company re-domesticated to Tennessee. On March 14, 1997, Direct General Corporation (“DGC”) acquired all of the outstanding capital stock of the Company and its name was changed to its current name. On December 28, 2000, DGIC was redomesticated from Tennessee to South Carolina. On December 19, 2007, DGIC was redomesticated from South Carolina to Indiana. The Company recently filed an application for redomestication from Indiana to Florida, where the Company is commercially domiciled. The Company, writes non-standard private passenger automobile insurance in Florida, Georgia, Missouri, South Carolina, Texas, and Virginia, and assumes this line of business in Texas and North Carolina. The Company markets its products primarily through neighborhood sales offices of insurance agencies owned by the Company’s parent. Approximately 92% of the policies sold are financed by the affiliated premium finance company.”

“Direct National Insurance Company (“DNIC”) was incorporated in Arkansas in October 2000 under the name National Insurance Underwriters. On August 12, 2005, DGC acquired DNIC from Specialty Insurance Underwriters, Inc. pursuant to a Stock Purchase Agreement dated as of April 8, 2005, which was approved by the Arkansas Department of Insurance by Order dated July 28, 2005. Thereafter its name was changed to its current name. DNIC is authorized to write one or more lines of property and casualty insurance business in 40 states and is currently writing non-standard private passenger automobile insurance in Arkansas and Illinois through its affiliated agencies. In addition, DNIC is party to a managing general agents agreement with First Chicago Insurance Agency, Inc. (“First Chicago”) under which First Chicago is authorized to produce and administer private passenger automobile policies in Colorado, Kansas and Missouri.”

The Company is licensed by the DIFP under Chapter 379, RSMo, to write property and casualty insurance as set forth in its Certificate of Authority.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of Direct National Insurance Company and Direct General Insurance:

- In 22 instances, the Company's termination of coverage notice was not sufficiently clear and specific so that a person of average intelligence could identify the basis for the Company's decision without further inquiry.
- In two instances, Direct failed to complete an investigation with 30 days of notification of the claim. The Company did not send the claimant a letter within 45 days from the initial date of notification and every 45 days thereafter as to the reason why additional time was needed to complete the investigation.
- In three instances, Direct failed to retain a copy of the denial letter in the file that explained the reason for the claim denial.
- In four instances, the Company did not maintain the claim file in a manner that clearly shows the inception, handling and disposition of the claim.
- In 14 instances, Direct failed to send the claimant a tax credit affidavit for the total loss of their vehicle.
- In four instances, Direct sent total loss claimants non-compliant tax credit affidavits that failed to include the 180-day notice regarding the limited duration of the tax credit.

EXAMINATION FINDINGS

I. UNDERWRITING AND RATING PRACTICES

This section of the report is designed to provide a review of the Company's underwriting and rating practices. These practices included the use of policy forms, adherence to underwriting guidelines, assessment of premium, and procedures to decline or terminate coverage. Examiners reviewed how the Company handled new and renewal policies to ensure that the Company underwrote and rated risks according to their own underwriting guidelines, filed rates, and Missouri statutes and regulations.

Because of the time and cost involved in reviewing each policy/underwriting file, the examiners utilize sampling techniques in conducting compliance testing. A policy/underwriting file is determined in accordance with 20 CSR 100-8.040 and the NAIC Market Regulation Handbook. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.930 – 375.948 and §375.445) and compared with the NAIC benchmark error rate of ten percent (10%). Error rates in excess of the NAIC benchmark error rate are presumed to indicate a general practice contrary to the law. Error rates indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

The examiners requested the Company's underwriting and rating manuals for the line of business under review. This included all rates, guidelines, and rules that were in effect on the first day of the examination period and at any point during that period to insure that the examiners could properly rate each policy reviewed.

The examiners also reviewed the Company's procedures, rules, and forms filed by or on behalf of the Company with the DIFP. The examiners randomly selected the policies for review from a listing furnished by the Company.

The examiners also requested a written description of significant underwriting and rating changes that occurred during the examination period for underwriting files that were maintained in an electronic format.

An error can include, but is not limited to, any miscalculation of the premium based on the information in the file, an improper acceptance or rejection of an application, the misapplication of the Company's underwriting guidelines, incomplete file information preventing the examiners from readily ascertaining the company's rating and underwriting practices, and any other activity indicating a failure to comply with Missouri statutes and regulations.

A. Forms and Filings

The examiners reviewed the Company's policy and contract forms to determine its compliance with filing, approval, and content requirements to ensure that the contract language is not ambiguous or misleading and is adequate to protect the insured.

The examiners discovered no issues or concerns.

B. Underwriting and Rating

The examiners reviewed applications for coverage that were issued, modified, or declined by the Company to determine the accuracy of rating and adherence to prescribed and acceptable underwriting criteria.

Private Passenger Auto

Field Size:	22,056
Sample Size:	100
Type of Sample:	Random
Number of Errors:	0
Error Ratio:	0%
Within DIFP Guidelines:	Yes

The examiners discovered no issues or concerns.

C. Cancellations, Non-Renewals, Rescissions, and Declinations

The examiners reviewed policies that the carrier terminated at or before the scheduled expiration date of the policies that were rescinded by the Company after the effective date of the policy.

The following are the results of the reviews:

Private Passenger Auto

Field Size:	57
Sample Size:	57
Type of Sample:	Census
Number of Errors:	0
Error Ratio:	0%
Within DIFP Guidelines:	Yes

The examiners discovered no issues or concerns.

Errors not included in ratio

Also noted in the sample were the following errors, which are not included in the error ratio above:

Reason for termination not clear and specific

In 22 instances of policy cancellations, non-renewals, and declinations, Direct's termination of coverage notice was not sufficiently clear and specific so that a person of average intelligence could identify the basis for the Company's decision without further inquiry.

References: § 379.120, RSMo, and Missouri Attorney General Opinion 159-76.

Policy Number

- xxxxx7305
- xxxxx2964
- xxxxx3679
- xxxxx6954
- xxxxx7449
- xxxxx1130
- xxxxx3199
- xxxxx3465
- xxxxxxxx01307
- xxxxxxxx00930
- xxxxxxxx00743
- xxxxxxxx00853
- xxxxxxxx0581
- xxxxxxxx0237
- xxxxxxxx0819
- xxxxxxxx1162
- xxxxxxxx1264
- xxxxxxxx3183
- xxxxxxxx0927
- xxxxxxxx0080
- xxxxxxxx0629
- xxxxxxxx0676

II. CLAIMS PRACTICES

This section of the report is designed to provide a review of the Company's claims handling practices. Examiners reviewed how the Company handled claims to determine the timeliness of handling, accuracy of payment, adherence to contract provisions, and compliance with Missouri statutes and regulations.

To minimize the duration of the examination, while still achieving an accurate evaluation of claim practices, the examiners reviewed a statistical sampling of the claims processed. The examiners requested a listing of claims paid and claims closed without payment during the examination period for the line of business under review. The review consisted of Missouri claims selected from a listing furnished by the Company with a date of closing from January 1, 2008, through December 31, 2008.

A claim file is determined in accordance with 20 CSR 100-8.040 and the NAIC *Market Regulation Handbook*. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.1000 – 375.1018 and §375.445) and compared with the NAIC benchmark error rate of seven percent (7%). Error rates in excess of the NAIC [or statutory] benchmark error rate[s] are presumed to indicate a general business practice contrary to the law. Errors indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

A claim error includes, but is not limited to, any of the following:

- An unreasonable delay in the acknowledgement of a claim.
- An unreasonable delay in the investigation of a claim.
- An unreasonable delay in the payment or denial of a claim.
- A failure to calculate claim benefits correctly.
- A failure to comply with Missouri law regarding claim settlement practices.

The examiners reviewed the claim files for timeliness. In determining timeliness, examiners looked at the duration of time the Company used to acknowledge the receipt of the claim, the time for investigation of the claim, and the time to make payment or provide a written denial.

Missouri statutes require the Company to disclose to first-party claimants all pertinent benefits, coverage or other provisions of an insurance policy under which a claim is presented. Claim denials must be given to the claimant in writing, and the Company must maintain a copy in its claim files.

A. Claims Time Studies

To test for compliance with timeliness standards, the examiners reviewed claim records and calculated the amount of time taken by the Company for claims processing. They reviewed the company's claims processing practices relating to (1) the acknowledgement of receipt of notification of claims; (2) the investigation of claims; and (3) the payment of claims or the providing of an explanation for the denial of claims.

DIFP regulations require companies to abide by the following parameters for claims processing:

- Acknowledgement of the notification of a claim must be made within 10 working days.
- Completion of the investigation of a claim must be made within thirty 30 calendar days after notification of the claim. If more time is needed, the Company must notify the claimant and send follow-up letters every 45 days.
- Payment or denial of a claim must be made within fifteen 15 working days after investigation of the claim is complete.

1. Private Passenger Auto – Physical Damage

Field Size: 639
Sample Size: 100
Type of Sample: Random
Number of Errors: 2
Error Ratio: 2%
Within DIFP Guidelines: Yes

In two instances, the Company failed to complete an investigation with 30 days of notification of the claim. While the investigation remained incomplete, Direct failed to send the claimant a letter within 45 days from the initial date of notification and every 45 days thereafter setting forth the reasons why additional time was needed.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(A),(C) & (4).

Claim Number

xxxxx13757
xxxxx54844

2. Private Passenger Auto – Uninsured Motorist & Underinsured Motorist

Field Size: 36
Sample Size: 36
Type of Sample: Census
Number of Errors: 0
Error Ratio: 0%
Within DIFP Guidelines: Yes

The examiners discovered no issues or concerns.

3. Private Passenger Auto – Medical Payments

Field Size: 12
Sample Size: 12
Type of Sample: Census
Number of Errors: 0
Error Ratio: 0%
Within DIFP Guidelines: Yes

The examiners discovered no issues or concerns.

B. Unfair Settlement and General Handling Practices

In addition to the Claim Time Studies, examiners reviewed the company's claim handling processes to determine compliance with contract provisions and adherence to unfair claims statutes and regulations. Whenever a claim file reflected that the company failed to meet these standards, the examiners cited the company for noncompliance.

1. Private Passenger Auto – Physical Damage

Field Size: 639
Sample Size: 100
Type of Sample: Census
Number of Errors: 3
Error Ratio: 3%
Within DIFP Guidelines: Yes

In three instances, Direct failed to provide the claimant with a written claim denial letter as required.

References: § 375.1007(4) & 20 CSR 100-1.050(1)(A).

Claim Number

xxxxx13757
xxxxx54844
xxxxxA1720

Errors not included in ratio

Also noted in the sample were the following errors, which are not included in the error ratio above:

Total Loss Tax Credit Affidavits

In 14 instances, the Company failed to send the claimant a tax credit affidavit for the total loss of their vehicle.

References: § 144.027, RSMo, and 20 CSR 300-2.200(3)(B) (as amended 20 CSR 100-8.040(3)(B)3.)

Claim Number

xxxxx43717
xxxxx07072
xxxxx39376
xxxxx52344
xxxxx83047
xxxxx61780
xxxxx83196
xxxxx44715
xxxxx14758
xxxxx76195
xxxxA1423
xxxxA0958
xxxxA1860
xxxxA2154

In four instances, Direct sent total loss claimants non-compliant tax credit affidavits that failed to include the 180-day notice regarding the limited duration of the tax credit.

References: § 144.027, RSMo, and 20 CSR 300-2.200(3)(B) (as amended 20 CSR 100-8.040(3)(B)3.)

Claim Number

xxxxx09012
xxxxx27257
xxxxx03896
xxxxx10929

2. Private Passenger Auto – Uninsured Motorist & Underinsured Motorist

Field Size: 36
Sample Size: 36
Type of Sample: Census
Number of Errors: 2

In two instances, Direct did not maintain the claim file so as to show clearly the inception, handling and disposition of the claim. Specifically, the Company failed to retain complete claim notes and written claim denial letters in the files.

References: § 374.205, RSMo, and 20 CSR 300-2.200(3)(B) (as amended 20 CSR 100-8.010).

Claim Number

xxxxx0778
xxxxx0474

3. Private Passenger Auto – Medical Payments

Field Size: 12
Sample Size: 12
Type of Sample: Census
Number of Errors: 0
Error Ratio: 0%
Within DIFP Guidelines: Yes

The examiners discovered no issues or concerns.

C. Practices Not in the Best Interest of Consumers

The examiners also looked for items that were not in the best interest of consumers. Not only could these practices be harmful to the insured, they may expose the company to potential liability.

Private Passenger Auto

The examiners discovered no issues or concerns.

III. COMPLAINTS

This section of the report is designed to provide a review of the Company's complaint handling practices. Examiners reviewed how the Company handled complaints to ensure it was performing according to its own guidelines and Missouri statutes and regulations.

Section 375.936(3), RSMo, requires companies to maintain a registry of all written complaints received for the last three years. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the company.

The examiners verified the company's complaint registry, dated January 1, 2006, through December 31, 2008. The registry contained a total of 35 complaints. They reviewed all 30 that went through DIFP and five that did not come through the Department, but went directly to the Company.

The review consisted of a review of the nature of each complaint, the disposition of the complaint, and the time taken to process the complaint as required by §375.936(3), RSMo, and 20 CSR 300-2.200(3)(D) (as amended 20 CSR 100-8.040(3)(D).)

The examiners discovered no issues or concerns.

IV. CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri law requires companies to respond to criticisms and formal requests within 10 calendar days. Please note that in the event an extension was requested by the company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within that time period, the response was not considered timely.

A. Criticism Time Study

<u>Calendar Days</u>	<u>Number of Criticisms</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	42	91%
Received outside time-limit, incl. any extensions	4	9%
<u>No Response</u>	<u>0</u>	<u>0 %</u>
Total	46	100 %

References: § 374.205, RSMo and 20 CSR 300-2.200 (as amended 20 CSR 100-8.040).

B. Formal Request Time Study

<u>Calendar Days</u>	<u>Number of Requests</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	10	100%
Received outside time-limit, incl. any extensions	0	0%
<u>No Response</u>	<u>0</u>	<u>0%</u>
Total	10	100%

EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of Direct General Insurance Company (NAIC #42781) and Direct National Insurance Company (NAIC #23736), Examination Number 0812-22-TGT. This examination was conducted by Gary Bird and John Pfaender. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated November 17, 2009. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.

Jim Mealer

Date

Chief Market Conduct Examiner

DIRECT GENERAL CORPORATION

Constance A. Collins
Senior Counsel & Assistant Secretary

Telephone: 877-665-8538
Email: Connie.Collins@directgeneral.com

VIA FIRST CLASS MAIL AND EMAIL

December 21, 2009

Ms. Carolyn H. Kerr
Senior Counsel
Market Conduct Section
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, MO 65102

RECEIVED
DEC 22 2009
DEPT OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

Re: Missouri Market Conduct Examination #0812-22-TGT
Direct General Insurance Company (NAIC #42781)
Direct National Insurance Company (NAIC #23736)

Dear Ms. Kerr:

The Missouri Department of Insurance (the "Department") recently completed a consolidated market conduct examination of Direct General Corporation's subsidiaries: Direct General Insurance Company and Direct National Insurance Company (collectively "Company"), each as of December 31, 2008. We received the Draft Examination Report (the "Report") dated November 17, 2009 on December 1, 2009.

On behalf of those companies, please accept the below responses with respect to the findings contained in the Report:

Section C. Cancellations, Non-Renewals, Rescissions, and Declinations; Reasons for termination not clear and specific.

Finding: In 22 instances, the Company's termination of coverage notice was not sufficiently clear and specific so that a person of average intelligence could identify the basis for the Company's decision without further inquiry.

Company's Response: With regard to the policies ending: 01307, 00930, 00743, and 00843, we respectfully disagree with the Department's finding and ask that these be removed from the list of 22 policies. These four policies were cancelled within 60 days of the policy inception due to underwriting reasons. As set forth below, pursuant to the definition of "policy" set forth in § 379.110 and Missouri case law, there is no prescribed notice requirement for policies cancelled within the first sixty days. As such it cannot be said that our notices of cancellation for these policies were deficient.

"Policy" as used in §§ 379.110 to 379.120, means, in part: "an automobile policy providing automobile liability coverage, uninsured motorists coverage, automobile medical payments coverage, or automobile physical damage coverage insuring a private passenger automobile owned by an individual or partnership which has been in effect for more than sixty days or has been renewed...." Emphasis added.

As such, Section 379.118 of the code cannot be applied to these underwriting period cancellations because we did not cancel a “policy” as that term is defined in the code.

Further, the Missouri Court of Appeals has held that there is no statutory requirement for notice when a policy is cancelled within the 60 day underwriting period. In *Hudson v. State SEC. Ins. Co.*, 555 S.W. 2d 859, 1977 Mo.App. LEXIS 2246 (Mo.Ct.App 1977), the Court wrote:

... Appellant's second argument is that the ten day notice of cancellation provision in the insurance contract causes an ambiguity, and that an ambiguous insurance contract should be construed in favor of the insured. We disagree that the insurance contract is ambiguous. It simply provides a 10 day notice for cancellation. The 10 day notice of cancellation in the insurance contract is for the benefit of the insured, in order to allow him time to obtain coverage from another company. Plaintiff is simply using the contract provision to support her construction of the statute, by implying that the statute becomes difficult to apply when such a contract provision exists. ***This argument would warrant consideration only if the statute required a notice provision. The statute does not require a notice provision in order to cancel during the 60 day period. [Emphasis added].***

...It is clear that the purpose of these statutes is to give the insurer a 60 day probationary period to determine whether it will exercise its option to cancel the policy, or thereafter be bound except for two exceptions not applicable here. The decision to cancel would still have to be made and notice of it issued during the initial 60 days. The end result of adopting plaintiff's position would be to reduce the insurer's decision making time from 60 to 50 days, not by reason of the statute, but by reason of the contract provision for a 10 day notice. ***Further, in a case where an insurer did not include a notice provision in its policy, cancellation could conceivably be upon immediate notice.***¹ ***[Emphasis added]*** Thus we believe our construction would inure to the benefit of a policy holder and carry out the remedial purpose of the statutes.

FOOTNOTES ¹ Section 379.118 requires a 30 day notice of cancellation if the policy has been in effect more than 60 days.

The above notwithstanding a person of average intelligence is able to understand the reasons set forth in our notices. In each case, the policyholder was sent a letter prior to us sending the notice of cancellation. The letters specifically advised the policyholder of the deficiencies in his or her insurance application documentation and each was specifically warned that the noted deficiencies had to be remedied or the policy would be cancelled. When these policyholders failed to fulfill their obligations, as promised the notices of cancellation were sent and the policies cancelled. It would be unreasonable to conclude that the policyholders were not fully informed and comprehended the consequences of their omissions. We have checked our records and have found that none of these insureds made further inquiry upon receiving the notices which further supports the fact that the manner in which we provide notice is clear to the person of average intelligence.

With regard to the other findings in the examination report, we have initiated corrective action plans to remediate those matters, including enhancing our claims processing procedures to ensure compliance with timing and claim file documentation requirements.

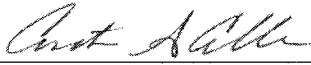
Ms. Carolyn H. Kerr
December 21, 2009
Page 3

The above information 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 any questions or need additional information, please contact me directly at 877-665-8538.

Sincerely,

DIRECT GENERAL INSURANCE COMPANY
DIRECT NATIONAL INSURANCE COMPANY

By: 

Constance A. Collins
Senior Counsel & Assistant Secretary

cc: Dan Tarantin - Chief Executive Officer
James R. Dickson - President