

**IN THE DEPARTMENT OF COMMERCE AND INSURANCE
STATE OF MISSOURI**

In Re:)
)
DIRECT GENERAL INSURANCE) **Market Conduct Exam No. 1401-04-TGT**
COMPANY (NAIC #42781))

ORDER OF THE DIRECTOR

NOW, on this 24th day of September, 2019, Director, Chlora Lindley-Myers, after consideration and review of the market conduct examination report of Direct General Insurance Company (NAIC #42781) (hereinafter “DGIC”), examination report number 1401-04-TGT, prepared and submitted by the Division of Insurance Market Regulation (hereinafter “Division”)¹ pursuant to §374.205.3(3)(a)², does hereby adopt such report as filed. After consideration and review of the Stipulation of Settlement and Voluntary Forfeiture (“Stipulation”), the examination report, relevant work papers, and any written submissions or rebuttals, the findings and conclusions of such report is deemed to be the Director’s findings and conclusions accompanying this order pursuant to §374.205.3(4). Director does hereby issue the following orders:

This order, issued pursuant to §374.205.3(4), §374.280 RSMo, and §374.046.15. RSMo, is in the public interest.

IT IS THEREFORE ORDERED that DGIC and the Division having agreed to the Stipulation, the Director does hereby approve and agree to the Stipulation.

IT IS FURTHER ORDERED that DGIC shall not engage in any of the violations of law and regulations set forth in the Stipulation, shall implement procedures to place it in full compliance with the requirements in the Stipulation and the statutes and regulations of the State of Missouri, and to maintain those corrective actions at all times, and shall fully comply with all terms of the Stipulation.

¹ At the time the Stipulation was signed, the Division was a part of the Department of Insurance, Financial Institutions and Professional Registration. The Division is now a part of the Department of Commerce and Insurance.

² All references, unless otherwise noted, are to Missouri Revised Statutes 2016 as amended.

IT IS FURTHER ORDERED that DGIC shall pay, and the Department of Commerce and Insurance, State of Missouri, shall accept, the Voluntary Forfeiture of \$3,000.00 payable to the Missouri State School Fund in connection with examination no. 1401-04-TGT.

IT IS SO ORDERED.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of my office in Jefferson City, Missouri, this ^{24th} day of September, 2019.


Chlora Lindley-Myers
Director



**IN THE DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION
STATE OF MISSOURI**

<i>In Re:</i>)	
)	
DIRECT GENERAL INSURANCE)	Market Conduct Examination
COMPANY (NAIC #42781))	1401-04-TGT
)	

STIPULATION OF SETTLEMENT AND VOLUNTARY FORFEITURE

It is hereby stipulated and agreed by the Division of Insurance Market Regulation (hereinafter, the “Division”), and Direct General Insurance Company (NAIC #42781) (hereinafter “Direct General”), as follows:

WHEREAS, the Division is a unit of the Missouri Department of Insurance, Financial Institutions and Professional Registration (hereinafter, the “Department”), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State of Missouri; and

WHEREAS, Direct General has been granted a certificate of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, the Division conducted a Market Conduct Examination of Direct General, examination #1401-04-TGT;

WHEREAS, the Division prepared a Final Market Conduct Examination Report (hereinafter, “Report”) dated August 21, 2019 attached hereto as Exhibit A; and

WHEREAS, based on the Market Conduct Examination of Direct General, the Division alleges that:

1. In ten instances, Direct General did not send an insured a written letter of explanation

explaining why the claim remained opened within 45 days of initial notification of the claim in violation of §375.1007 (4)¹, §375.1005 (2) and 20 CSR 100-1.050 (1) (C).

2. In one instance, Direct General overpaid a claim by applying an incorrect deductible in violation of §375.1007 (4) and §375.1005 (2).

3. In four instances, Direct General did not provide insureds with a written denial letter with specific reference to a policy provision, condition or exclusion in violation of §375.1007 (12), §375.1005 (2) and 20 CSR 100-1.050 (1) (A).

4. In three instances, Direct General failed to implement reasonable standards for the investigation of claims in violation of §375.1007 (3) and §375.1005 (2).

5. In twenty-five instances, Direct General did not retain documents and correspondence in the claim file necessary to clearly show the inception, handling and disposition of the claim in violation of §375.1007 (3) and §375.1005 (2).

6. In one instance, Direct General did not provide necessary claim forms, instructions and reasonable assistance to the insured within 10 working days in violation of §375.1007 (2) & (3), §375.1005 (2) and 20 CSR 100-1.030 (2) & (3).

7. In one instance, Direct General was subrogated by the third party's insurance carrier for medical payments that had been issued to the third party passenger in violation of §375.1007 (1) and §375.1005 (2).

8. In four instances, Direct General did not respond to inquiries from the Department's Consumer Affairs Division within 20 days from the date the Division mailed the inquiry in violation of 20 CSR 100-4.100 (2) (A).

9. In one instance, Direct General did not respond to a request for information by a

¹ All references, unless otherwise noted, are to Revised Statutes of Missouri 2016, as amended.

claimant's representative within 10 working days in violation of 20 CSR 100-1.030 (2).

10. Direct General was unable to provide copies of requested complaint files in violation of §375.936 (3), §375.934 (2) and 20 CSR 100-8.040 (3) (D).

WHEREAS, the Division and Direct General have agreed to resolve the issues raised in the Market Conduct Examination as follows:

A. **Scope of Agreement.** This Stipulation of Settlement and Voluntary Forfeiture (hereinafter, "Stipulation") embodies the entire agreement and understanding of the signatories with respect to the subject matter contained herein. This Stipulation of Settlement does not resolve issues which were not addressed in this Stipulation or in the Final Market Conduct Examination Report dated August 21, 2019.² The signatories hereby declare and represent that no promise, inducement or agreement not herein expressed has been made, and acknowledge that the terms and conditions of this agreement are contractual and not a mere recital.

B. **Remedial Action.** Direct General agrees to take remedial action bringing it into compliance with the statutes and regulations of Missouri and agree to maintain those remedial actions at all times. Such remedial actions shall include, but are not limited to, the following:

1. Direct General agrees that if a claim's investigation is not completed within 45 days of the date of initial notification of the claim, it will send a written notification to the claimant within 45 days of initial notification of the claim and every 45 days thereafter explaining why additional time is needed to complete the investigation.

² This Stipulation does not purport to address or resolve any issues relating to any contractual relationship or sales agreement between Direct General, its subsidiaries or affiliates with Nation Motor Club, LLC d/b/a Nation Safe Drivers.

2. Direct General agrees that where a claim is denied, it will provide the insured with a written denial letter with specific reference to the policy provision, condition or exclusion that forms the basis for the denial.

3. Direct General agrees that where a police report exists in connection with a claim, it will maintain a copy of the police report in the claim file.

4. Direct General agrees to retain documents and correspondence in claim files sufficient to document the inception, handling and disposition of the claim.

5. Direct General agrees that it will respond to inquiries from the Department's Consumer Affairs Division within 20 days from the date the Division mails the inquiry, unless an extension is requested and agreed to.

6. Direct General agrees that it will maintain a complete record of all complaints which it has received for a period of not less than three years and maintain a complaint log or register for that three year period that satisfies the requirements of 20 CSR 100-8.040 (3) (D).

C. **Compliance.** Direct General agrees to file documentation with the Division, in a format acceptable to the Division, within 90 days of the entry of a final order of any remedial action taken to implement compliance with the terms of this Stipulation. Such documentation is provided pursuant to §374.205.

D. **Examination Fees.** Direct General agrees to pay any reasonable examination fees expended by the Division in conducting its review of the documentation provided by the Company pursuant to Paragraph C of this Stipulation.

E. **Voluntary Forfeiture.** Direct General agrees, voluntarily and knowingly, to surrender and forfeit the sum of \$3,000.00 such sum payable to the Missouri State School Fund, in

accordance with §374.049.11 and §374.280.2.

F. **Other Penalties.** The Division agrees that it will not seek penalties against Direct General, other than those agreed to in this Stipulation, in connection with Market Conduct Examination #1401-04-TGT.

G. **Non-Admission.** Nothing in this Stipulation shall be construed as an admission by Direct General, this Stipulation being part of a compromise settlement to resolve disputed factual and legal allegations arising out of the above referenced market conduct examination.

H. **Waivers.** Direct General, after being advised by legal counsel, does hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity for a hearing, and review or appeal by any trial or appellate court, which may have otherwise applied to the Market Conduct Examination #1401-04-TGT.

I. **Changes.** No changes to this Stipulation shall be effective unless made in writing and agreed to by representatives of the Division and Direct General.

J. **Governing Law.** This Stipulation shall be governed and construed in accordance with the laws of the State of Missouri.

K. **Authority.** The signatories below represent, acknowledge and warrant that they are authorized to sign this Stipulation, on behalf of the Division and Direct General respectively.

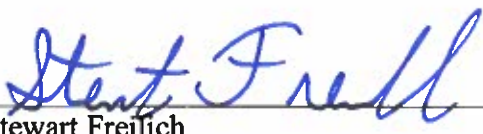
L. **Counterparts.** This Stipulation may be executed in multiple counterparts, each of which shall be deemed an original and all of which taken together shall constitute a single document. Execution by facsimile or by an electronically transmitted signature shall be fully and legally effective and binding.

M **Effect of Stipulation.** This Stipulation shall not become effective until entry of a

Final Order by the Director of the Department (hereinafter the "Director") approving this Stipulation and the Report dated August 21, 2019.

N. **Request for an Order.** The signatories below request that the Director issue an Order approving this Stipulation and ordering the relief agreed to in the Stipulation, and consent to the issuance of such Order.

DATED: 9/19/2019 
Angela L. Nelson, Director
Division of Insurance Market Regulation

DATED: 9/19/2019 
Stewart Freilich
Chief Market Conduct Examiner and
Senior Counsel
Division of Insurance Market Regulation

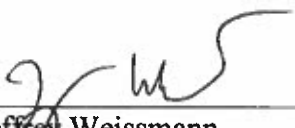
DATED: 9/16/2019 
Jeffrey Weissmann
EVP, General Counsel and Corporate Secretary
Direct General Insurance Company

Exhibit A

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 Group #1213
NAIC # 42781

MISSOURI EXAMINATION # 1401-04-TGT

NAIC EXAM TRACKING SYSTEM # MO341-M124

August 21, 2019

Direct General Insurance Company
1281 Murfreesboro Road
Nashville, TN 37217

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FOREWORD

This is a targeted, desk market conduct examination report of the Direct General Insurance Company (NAIC Code # 42781). This examination was conducted at the offices of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP), located at 615 East 13th Street, Room 506, Kansas City Mo. 64106.

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 potential violations 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;
- "CSR" refers to the Missouri Code of State Regulation;
- "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;
- "DGIC" refers to Direct General Insurance Company;
- "RSMo" refers to the Revised Statutes of Missouri.

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 were consistent with the public interest. The primary period covered by this review was January 1, 2010 through January 5, 2016, unless otherwise noted. However, errors outside of this time period found during the course of the examination may also be included in the report.

The examination included a review of the following areas of the Company's operations for its private passenger automobile business: claims handling, underwriting and complaints practices.

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 error rate for claims practices is seven percent (7%) and for other trade practices is ten percent (10%). The benchmark error rates were not utilized, however, for reviews not applying to 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. 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 profile was provided to the examiners by the Company:

Direct General Insurance Company (the "Company") was originally 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. On March 6, 1997, the Company re-domesticated to Tennessee. On March 14, 1997, Direct General Corporation ("DGC") acquired 100% of the issued and outstanding capital stock of the Company and changed its name to the current name. (DGC, headquartered in Nashville, Tennessee, is a privately owned financial services holding company whose principal operating subsidiaries provide nonstandard private passenger automobile insurance, term life insurance and premium finance and other consumer products and services primarily on a direct basis throughout most of the southeastern United States. Direct General Corporation's operating subsidiaries include property/casualty insurance companies, a life/health insurance company, premium finance companies, insurance agencies, administrative service companies, and one company that provides noninsurance consumer products and services. On December 28, 2000, the Company was re-domesticated from Tennessee to South Carolina. On March 30, 2007, Elara Holdings acquired 100% of the issued and outstanding stock of DGC, and therefore the Company. On December 19, 2007, the Company was then re-domesticated from South Carolina to Indiana.

The Company is a property and casualty insurance company specializing in the non-standard automobile insurance market. It currently writes non-standard private passenger automobile insurance on a direct basis in Alabama, Florida, Georgia, Missouri, South Carolina, Texas, and Virginia and holds licenses in several other states. 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 plans, the failure to maintain continuous coverage, age, prior accidents, driving violations, occupation, and type of vehicle. Affiliated insurance agencies sell the Company's products directly through neighborhood sales offices. In addition, customers may purchase insurance coverage through the Company's web, telephone, or mobile device channels. In addition to its direct business, the Company assumes 100% of State National Insurance Company's ("SNIC") automobile physical damage business written in North Carolina. The Company's affiliated agencies produce this business and other affiliates administer the policies and claims. In January 2003, the Company entered into a similar arrangement with Old American County Mutual Insurance Company ("Old American"), whereby the Company assumes 100% of Old American's automobile liability and physical damage business in Texas that is produced and administered by the Company's affiliates.

The Company currently has two subsidiaries: Direct General Insurance Company of Mississippi, a Mississippi domiciled property and casualty insurance company ("DGICMS"), and Direct General Life Insurance Company, a South Carolina domiciled life insurance company ("DGLIC"). DGC contributed 100% of the issued and outstanding stock of DGICMS to the Company effective on December 31, 2001. This transaction was approved by both the Mississippi and South Carolina Departments of Insurance. DGIC acquired 100% of the issued and outstanding capital stock of DGLIC, which had been a Delaware domiciled insurer, pursuant to a Stock Purchase Agreement dated as of June 26, 2003 and an Assignment of Purchase Rights dated January 30, 2004. The acquisition was approved by Order dated January 15, 2004 by the Delaware Department of Insurance. (DGLIC was re-domesticated to South Carolina on April 23, 2004). DGIC maintains control of both of its subsidiaries as long-term investments in operating subsidiaries.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of the Direct General Insurance Company. The examiners found the following areas of concern:

- The examiners found 10 instances where the Company failed to provide a letter to the insured explaining why the file remained open after 45 days of the initial notification of the claim and every 45 days thereafter.
- The examiners found one instance where the Company failed to attempt in good faith to effectuate a fair and equitable claim settlement in that it used an incorrect deductible resulting in an overpayment.
- The examiners found four instances where the Company failed to provide a written letter of denial to the insured with reference to a policy provision, condition, or exclusion.
- The examiners found three instances where the Company failed to implement reasonable standards for the investigation of the claim by not ordering police reports.
- The examiners found 25 instances where the Company failed to document the file clearly, showing the inception, handling, and disposition of the claim.
- The examiners found one instance where the Company failed within 10 working days to provide the necessary forms, instructions, and reasonable assistance to the insured.
- The examiners found one instance where the Company paid subrogation for Medical Payments to a third party insurance carrier. Subrogation of Medical Payments is considered an assignment of a cause of action for personal injury, and against public policy in the state of Missouri.
- The examiners found four instances where the Company failed to respond to inquiries from the DIFP Consumer Affairs Division within 20 days from the date the division mailed the inquiry.
- The examiners found one instance where the Company failed within 10 working days to respond to the request for information by the claimant's representative.

EXAMINATION FINDINGS

I. 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, 2010, through December 31, 2012.

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 RSMo) and compared with the NAIC benchmark error rate of seven percent (7%). Error rates in excess of the NAIC benchmark error rates 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, investigate the claim, and provide payment or a written denial.

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 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 15 working days after the investigation of the claim is complete.

Missouri statutes also 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.

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

A. Claims Paid

1. Claims Time Studies

The examiners requested a sample from the total population of Missouri Private Passenger Auto claims paid and closed during the examination period.

a. Acknowledgment

Field Size:	4,116
Sample Size:	50
Type of Sample:	Random
Number of Errors:	0

The examiners found no issues or concerns.

b. Investigation

Field Size:	4,116
Sample Size:	50
Type of Sample:	Random
Number of Errors:	4
Error Ratio:	8.0%
Within DIFP Guidelines:	No

The examiners discovered the following four instances during their review. The same instances were also discovered in a previous examination.

1. The Company failed after 45 days of the initial notification of the claim to send the insured a letter of explanation in writing, explaining why the claim remained open.

Claim Number:

xxx0170

xxx9877

xxx8232

xxx0928

Reference: §375.1007(4) RSMo, 20 CSR 100-1.050(1)(C)

c. Determination

Field Size:	4,116
Sample Size:	50
Type of Sample:	Random
Number of Errors:	0

The examiners found no issues or concerns

2. Unfair Settlement and General Handling Practices

The examiners requested a sample from the total population of Missouri Private Passenger Auto claims paid and closed during the examination period.

Effectuate Prompt, Fair and Equitable Settlements

Field Size:	4,116
Sample Size:	50
Type of Sample:	Random
Number of Errors:	7
Error Ratio:	14.0%
Within DIFP Guidelines:	No

The examiners discovered the following seven instances during their review.

1. The examiners found one instance where the Company failed to attempt in good faith to effectuate a fair and equitable settlement of the following claim file, resulting in an overpayment of the claim. The Company applied

a \$500 collision deductible and not the \$1,000 collision deductible shown on the policy.

<u>Claim Number</u>	<u>Claim Overpayment</u>
---------------------	--------------------------

xxx2856	\$500.00
---------	----------

Reference: §375.1007(4) RSMo

2. The examiners found three instances where the Company failed to provide the insured with a written denial letter with a specific reference to a policy provision, condition or exclusion.

<u>Claim Number</u>

xxx5323

xxx0436

xxx3673

Reference: §375.1007(12) RSMo and 20 CSR 100- 1.050(1)(A)

3. The examiners found three instances where the Company failed to implement reasonable standards for the investigation of the claim. The Company failed to order and document the file with a copy of the police report showing the drivers, passengers, injuries, witnesses, and details of the accident.

<u>Claim Number</u>

xxx8232

xxx5684

xxx3525

Reference: §375.1007(3) RSMo

3. Unfair Claims Practices

The examiners requested a sample from the total population of Missouri Private Passenger Auto claims paid and closed during the examination period.

Field Size:	4,116
Sample Size:	50
Type of Sample:	Random
Number of Errors:	12

Error Ratio: 24.0%
Within DIFP Guidelines: No

The examiners found the following 12 instances. The same instances were discovered in a previous examination.

1. The examiners found that the Company failed to retain documents and correspondence in the claim file necessary to clearly show the inception, handling, and disposition of the claim.

<u>Claim Number</u>	<u>Claim Number</u>
xxx0170	xxx7316
xxx6382	xxx8841
xxx1141	xxx2856
xxx3807	xxx4807
xxx0928	xxx9877
xxx3553	xxx3525

Reference: §375.1007(3) RSMo

B. Claims Closed Without Payment

1. Claims Time Studies

The examiners requested a sample from the total population of Missouri Private Passenger Auto claims closed without payment during the examination period.

a. Acknowledgment

Field Size: 1,831
Sample Size: 50
Type of Sample: Random
Number of Errors: 0

The examiners discovered no issues or concerns.

b. Investigation

Field Size: 1,831
Sample Size: 50
Type of Sample: Random
Number of Errors: 7

Error Ratio: 14.0%

Within DIFP Guidelines: No

1. The examiners found one instance where the Company failed within 10 working days to provide the necessary claim forms, instructions, and reasonable assistance to the insured.

Claim Number

xxx5849

Reference: §375.1007(2) & (3) RSMo and 20 CSR 100-1.030(2) & (3)

2. The examiners found the following six instances that the Company failed after 45 days of the initial notification of the claim to send the insured a letter of explanation in writing, explaining why the claim remained open. This was also discovered in a previous examination.

Claim Number:

xxx9358

xxx6735

xxx9833

xxx4864

xxx9676

Claim Number:

xxx3673

Reference: §375.1007(4) RSMo, 20 CSR 100-1.050(1)(C)

3. Determination

Field Size: 1,831

Sample Size: 50

Type of Sample: Random

Number of Errors: 0

The examiners discovered no issues or concerns.

2. Unfair Settlement and General Handling Practices

The examiners requested a sample from the total population of Missouri Private Passenger Auto claims closed without payment and closed during the examination period.

Effectuate Prompt, Fair and Equitable Settlements

Field Size:	1,831
Sample Size:	50
Type of Sample:	Random
Number of Errors:	1
Error Ratio:	2.0%
Within DIFP Guidelines:	Yes

1. The examiners found that the Company failed to provide the insured with a written denial letter with a specific reference to a policy provision, condition or exclusion.

Claim Number

xxx3673

Reference: §375.1007(12) RSMo and 20 CSR 100- 1.050(1)(A)

Unfair Settlement Rate

Field Size:	1,831
Sample Size:	50
Type of Sample:	Random
Number of Errors:	0

The examiners discovered no issues or concerns.

3. Unfair Claims Practices

The examiners requested a sample from the total population of Missouri Private Passenger Auto claims closed without payment during the examination period.

Field Size:	1,831
Sample Size:	50
Type of Sample:	Random
Number of Errors:	14
Error Ratio:	28.0%
Within DIFP Guidelines:	No

1. The examiners found one instance where the Company was subrogated by the third party's insurance carrier for medical payments that had been issued to the third party's passenger. Subrogation of Medical Payments is considered an assignment of a cause of action for personal injury, and against public policy in the State of Missouri.

Claim Number

xxx3525

Reference: §375.1007(1) RSMo

3. The examiners found 13 instances where the Company failed to retain documents and correspondence in the claim file necessary to clearly show the inception, handling, and disposition of the claim.

Claim Number

Claim Number

xxx9132

xxx4632

xxx9358

xxx8239

xxx2591

xxx6735

xxx4674

xxx5592

Claim Number

Claim Number

xxx5849

xxx8719

xxx3138

xxx9961

xxx6837

Reference: §375.1007(3) RSMo

II. 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 its own underwriting guidelines, filed rates, and to Missouri statutes and regulations.

Because of the time and cost involved in reviewing each policy/underwriting file, the examiners utilized sampling techniques in conducting compliance testing. A policy/underwriting file is reviewed 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, RSMo.) 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 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.

The examiners requested the Company's underwriting and rating manuals for the lines 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 ensure 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 used a census or randomly selected the files 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 those insured.

The examiners found no issues or concerns.

B. Private Passenger Automobile

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.

The following are the results of the reviews:

Underwriting- Active

Field Size:	8,977
Sample Size:	50
Type of Sample:	Random
Number of Errors:	0
Error Ratio:	0.0%

The examiners discovered no issues or concerns.

C. Private Passenger Automobile Cancelled

This section of the report is designed to provide a review of the Company's cancellation, non-renewal and declination practices. Examiners reviewed how the Company declines applications, cancels and non-renews policies to ensure that it was performing these practices according to its own company guidelines, Missouri statutes, and DIFP regulations.

The examiners requested a data download of policies cancelled within the first 60 days, policies non-renewed, and applications declined during the examination period. Policies were then randomly selected for review. When the number of policies in the population was small, the examiners selected each file, or a census, for review.

1. Policies Cancelled for Material Misrepresentation

The examiners requested a sample from the total population of all Private Passenger Auto policies written in the state of Missouri, which were cancelled or declined for material misrepresentation during the examination period.

The following are the results of the reviews:

Field Size:	1
Sample Size:	1
Type of Sample:	Census
Number of Errors:	0
Error Ratio:	0.0%

The examiners discovered no issues or concerns.

2. Policies Cancelled With Reason

The examiners requested a sample from the total population of all Private Passenger Auto policies written in the state of Missouri, which were cancelled showing a specific reason for cancellation during the examination period.

The following are the results of the reviews:

Field Size:	15
Sample Size:	15
Type of Sample:	Census
Number of Errors:	0
Error Ratio:	0.0%

The examiners discovered no issues or concerns.

3. Policies Cancelled With No Reason

The examiners requested a sample from the total population of all Private Passenger Auto policies written in the state of Missouri, which were cancelled with no specific reason shown for the cancellation, during the examination period.

The following are the results of the reviews:

Field Size:	25
Sample Size:	25
Type of Sample:	Census
Number of Errors:	0
Error Ratio:	0.0%

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 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 during the scope of the examination. 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, 2010, to December 31, 2012. The registry contained a total of 44 complaints. The examiners reviewed all 44.

A. Complaints Sent Directly to the DIFP

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 100-8.040(3)(D).

The examiners found the following five instances.

1. The examiners discovered four instances where the Company failed to respond to inquiries from the DIFP Consumer Affairs Division within twenty (20) days from the date the division mailed the inquiry.

Complaint Number

x9150

xx0178

xx2660

xx8107

Reference: 20 CSR 100-4.100(2)(A)

2. The examiners discovered one instance where the Company failed within ten (10) working days to respond to the request for information by the claimant's representative.

Complaint Number

xx5855

Reference: §375.1007(2) RSMo and 20 CSR 100-1.030(2)

B. Complaints Sent Directly to the Company

The examiners requested copies of the Company's complaint files regarding complaints that were sent directly to the Company. The Company was unable to provide copies of the complaint files with the explanation that they were lost in an office move or had been purged in accordance with their record retention policy.

Reference: §375.936 (3), §375.934 (2) RSMo and 20 CSR 100-8.040 (3) (D)

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. The examiners discovered no issues or concerns.

A. Criticism Time Study

Calendar Days	Number of Criticisms	Percentage
Received w/in time limit, including any extensions	41	100.00%
Received w/in time limit, including any extensions	0	0.00%
No Response	0	0.00%
Total	41	100.00%

Reference: §374.205.2(2), RSMo, and 20 CSR 100-8.040

B. Formal Request Time Study

Calendar Days	Number of Requests	Percentage
Received w/in time limit, including any extensions	3	100.00%
Received w/in time limit, including any extensions	0	0.00%
No Response	0	0.00%
Total	3	100.00%

Reference: §374.205.2(2), RSMo and 20 CSR 100-8.040

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), Examination Number 1401-04-TGT. This examination was conducted by Scott B. Pendleton, Dale Hobart, Dennis Foley, and Jon Meyer. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated June 20, 2019. 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.

8/21/2019
Date

Stewart Freilich
Stewart Freilich
Chief Market Conduct Examiner