

**BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS**

**IN THE MATTER OF THE REPORT
OF EXAMINATION OF DIRECT NATIONAL
INSURANCE COMPANY**

A.I.D. NO. 2017- 051

ADOPTION ORDER

Now on this day the matter of the Report of Examination (“Report”) as of December 31, 2015, of Direct National Insurance Company (“Company”), NAIC No. 23736, is taken under consideration by Allen Kerr, Insurance Commissioner for the State of Arkansas (“Commissioner”), as presented by Associate Counsel, Amanda Capps Rose, and the Finance Division of the Arkansas Insurance Department (“Department”). From the facts, matters and other things before him, the Commissioner finds as follows:

FINDINGS OF FACT

1. The Company is an Arkansas-domiciled property and casualty insurer.
2. Pursuant to Ark. Code Ann. §§ 23-61-201, *et seq.*, the Commissioner authorized and directed the Department to conduct a regular examination of the affairs, transactions, accounts, records, and assets of the Company as of December 31, 2015.
3. Said examination was commenced by the Department on July 5, 2016, and completed on May 17, 2017.
4. The verified Report of Examination was filed with the Department on May 19, 2017. It was then mailed to the Company via certified mail on May 19, 2017. The Company received the Report on May 22, 2017, according to the tracking service available through the United States Postal Service.

5. As part of Direct General Group's cash management program, cash was transferred monthly to various entities within the Direct General Group in contravention of the provisions of the Inter-company Producer Agreement, General Agency Agreement, EFT Agreement, and MGA Agreements.

6. The Company appointed a new officer retroactively on November 1, 2016, but failed to file a biographical affidavit for the new officer within thirty (30) days of the appointment.

7. One producer was terminated, and that termination was not reported within the time required by Ark. Code Ann. § 23-64-515(a), and another producer was terminated for cause without notice within the time required by Ark. Code Ann. § 23-64-515(b).

8. Based on the samples of non-renewal notices reviewed during the examination, the Company's notifications of non-renewals were consistently mailed less than thirty (30) days of the non-renewal date. The Company has subsequently corrected its written procedures to conform to the requirements of relevant law.

9. In correspondence dated June 8 and June 22, 2017, the Company provided comments regarding the Report, which were considered by the Department in preparing the Final Report.

CONCLUSIONS OF LAW

Based upon the above and foregoing Findings of Fact, the Commissioner makes the following Conclusions of Law:

1. The Commissioner and the Department have jurisdiction over the parties and the subject matter contained herein.

2. This Adoption Order has been properly entered in accordance with the Arkansas Insurance Code and Department Rules.

3. The Department was not given advance notice of the transactions referenced above as required by Ark. Code Ann. § 23-63-515(a)(2)(A), nor were these transactions reported in compliance with the requirements of Ark. Code Ann. § 23-63-514(b)(3) of the Insurance Holding Company Regulatory Act.

4. The failure of the Company to submit a biographical affidavit for the officer newly appointed retroactively on November 1, 2016, within thirty (30) is a violation of Department Rule 7.

5. The procedures followed by the Company with regard to the termination of two of its producers was in violation of Ark. Code Ann. § 23-64-515.

6. The Company's failure to provide thirty (30) days' notice of non-renewal on insureds' policies is a violation of Ark. Code Ann. § 23-89-305.

THEREFORE, pursuant to the provisions of Ark. Code Ann. § 23-61-205 and other provisions of the Arkansas Insurance Code, the Commissioner hereby orders:

1. That the Examination Report, as filed with the Department, is hereby adopted;

2. That the Department shall forward a copy of this Adoption Order and the adopted Examination Report, as filed, to the Company via certified mail. The mailing to the Company shall include specimen affidavit forms for the Company's Board of Directors to use in acknowledgement of receipt of the adopted Report of Examination and this Adoption Order;

3. That within twenty (20) days of receipt of this Adoption Order and the adopted Examination Report, the Company shall file with the Department affidavits executed by each one of its directors, stating under oath or affirmation that each has received a copy of this Adoption Order and the adopted Examination Report;

4. That the adopted Examination Report shall be open for public inspection upon the expiration of thirty (30) days from the Company's receipt of this Adoption Order;

5. That the Company shall cease entering into material transactions without prior approval of the Department pursuant to Ark. Code Ann. § 23-63-515 and shall disclose any such material transactions in its Annual Registration filed pursuant to Ark. Code Ann. § 23-63-514 and Department Rule 15;

6. That the Company shall file a biographical affidavit of any new officer or director within thirty (30) days of such appointment; and

7. That the procedures followed by the Company upon termination of a producer shall be in compliance with the provisions of Ark. Code Ann. § 23-64-515,

IT IS SO ORDERED this 30th day of June, 2017.


ALLEN KERR
INSURANCE COMMISSIONER
STATE OF ARKANSAS