

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

**IN THE MATTER OF THE
REPORT OF EXAMINATION
OF DIRECT NATIONAL INS. CO.**

A.I.D. NO. 2010-021A

AMENDED ADOPTION ORDER

Now on this day the matter of the Report of Examination as of (“Report”) of Direct National Insurance Company, Nashville, Tennessee, (“Company”), NAIC No. 23736, is taken under consideration by Jay Bradford, Insurance Commissioner for the State of Arkansas (“Commissioner”), as presented by the Finance Division and Ashley Fisher, Attorney Specialist, of the Arkansas Insurance Department (“Department”). From the facts, matters and other things before him, the Commissioner rescinds the previous Adoption Order entered on February 12, 2010 and finds as follows:

FINDINGS OF FACT

1. That the Commissioner has jurisdiction over the Company and the subject matter involved herein;
2. That the Company is a domestic stock insurer licensed to transact property and casualty insurance;
3. That the Company redomesticated to Arkansas in October of 2000 and holds a Certificate of Authority to conduct the business of property and casualty insurance;
4. That 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, 2008;
5. That said examination was commenced by the Department on August 10, 2009 and completed on October 13, 2009;

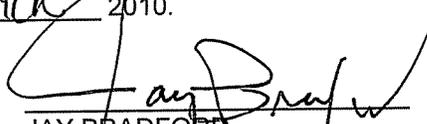
6. That the verified Report of Examination was filed according to Ark. Code Ann. § 23-61-205(a)(2) with the Department on December 11, 2009. The Report was forwarded to the Company via certified mail on December 11, 2009 and was received by the Company on December 14, 2009;
7. That the Company filed written rebuttal and comments to the capital structure section of the Report with the Department's Finance Division;
8. That modifications were made to the original Report of Examination based upon the risk transfer analysis reviewed by the Department's examiners. Specifically, modifications were made to the first paragraph under the Reinsurance section on page 7 and to the last paragraph on page 8. Under the Findings and Recommendations (Risk Transfer for the Dorinco Reinsurance Agreement) on page 14, modifications were made to the entire paragraph. A Subsequent Events section was added to the exam report on page 14;
9. The Report of Examination contained the following discrepancies, deficiencies and recommendations of the Department concerning the Company's operations:
 - (a) The Company did not submit blank, pre-numbered pages to be used in its corporate minute books as required by Arkansas Insurance Department Rule 9. During the examination, the Company provided the pre-numbered pages to the Arkansas Insurance Department and indicated that future minutes will be recorded on pre-numbered pages bearing the Arkansas Insurance Department seal;
 - (b) The Company's disaster recovery plan is lengthy and not efficient for use in the event of disaster; thus it is recommended that the company consider revising the plan;

- (c) The Company does not employ a formal change control system for the front end web-based systems being developed. It is recommended that the Company institute a formal change control system for all financially significant systems;
- (d) The Company used the ratio of actual general expenses incurred during 2008 to the unearned premium balance at December 31, 2008 to determine the expense provision. It is recommended that the Company relate expenses to 2008 earned premium and apply that ratio to the unearned premium amount;
- (e) The Company included a ratio of investment gain on insurance transactions to unearned premium in its calculation. It is recommended that the Company discount projected losses at an appropriate interest rate rather than include investment gain;
- (f) That, during the actuarial review of the Arkansas rate filing, there were inconsistencies in the analysis provided by the Company. The loss development factors selected in the rate filing were significantly different than those selected for the reserve analysis. This discrepancy is, in part, due to the Company's use of a five-quarter volume weighted average in selecting its development factors. It is recommended that the Company perform its reserve analysis on a semi-annual or annual basis;
- (g) That the Company engages an actuarial consulting firm to assist with the evaluation of rates and an external actuary who reviews the reserve calculation at year end. It is recommended that the Company utilize these sources throughout the year for input and review related to pricing and reserve calculations.

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

1. That the Examination Report, as filed with the Department, is hereby adopted.
2. That the Company shall submit blank, pre-numbered pages to be used in its corporate minute books as required by Arkansas Insurance Department Rule 9.
3. That the Department shall forward a copy of this 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 Directors to use in acknowledgement of receipt of the adopted Report of Examination and this Order.
4. That within twenty (20) days of receipt of this 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 Order and the adopted Examination Report;
5. 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 Order.
6. That the Department, as a matter of course, reserves the right to consider administrative proceedings against the Company at a later date.

IT IS SO ORDERED this 10th day of March 2010.


JAY BRADFORD
INSURANCE COMMISSIONER
STATE OF ARKANSAS