

**UNITRIN®**

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**Margaret L. O'Hara**  
Vice President &  
Corporate Counsel

Honorable L.J. DIC  
Patricia D. Petersen  
Chief Hearing Officer

March 1, 2011

Via Electronic Mail and Federal Express – Overnight Delivery

Hon. Patricia D. Petersen  
Chief Hearing Officer  
State of Washington Office of Insurance Commissioner  
5000 Capitol Blvd.  
Tumwater, WA 98501

**RE: Redomestication of National Merit Insurance Company  
Docket No. 10-0235**

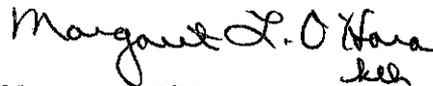
Dear Judge Petersen:

Enclosed for your review please find an original, signed Pre-Filed Direct Testimony of David M. Elkins which has been prepared for the hearing scheduled for Monday, March 7, 2011 at 10:00 A.M. PST. A signed original was retained for our files.

Please contact me if you have any questions or need anything further. Thank you for your assistance in this matter.

Very truly yours,

**NATIONAL MERIT INSURANCE COMPANY**



Margaret L. O'Hara  
Vice President and Corporate Counsel

MLO/klh

Enclosure

cc: Nicole Kelly (by e-mail)  
Jeffrey L. Gingold, Esq. (w/enclosure)  
Marcia Stickler, Esq. (w/enclosure)

**Unitrin Direct**

One East Wacker Drive, Suite 3700 • Chicago, Illinois 60601 • 312.661.4542 • Fax 312.661.4703 • Cell 312.307.2116 • mohara@unitrin.com

BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Redomestication of:	)	
	)	<b>Docket No. 10-0235</b>
	)	
<b>NATIONAL MERIT INSURANCE</b>	)	<b>DECLARATION OF</b>
<b>COMPANY</b>	)	
	)	<b>DAVID M. ELKINS</b>
A Washington Domestic Insurer.	)	
	)	
_____ Applicant.	)	

David M. Elkins, under penalty of perjury under the laws of the State of Washington, declares as follows:

1. I am Senior Vice President of National Merit Insurance Company. I am over the age of eighteen years old, and I make this Declaration based upon personal knowledge.

2. Attached hereto is a true and correct copy of my Pre-filed Direct Testimony in the above-referenced matter. I am competent to testify in the matters set forth in my testimony, and I incorporate the contents of my Pre-filed Direct Testimony into this Declaration.

Signed this 1<sup>st</sup> day of March 2011, at Chicago, Illinois.

  
\_\_\_\_\_  
David M. Elkins

**BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER**

In the Matter of the Redomestication of:	)	
	)	<b>Docket No. 10-0235</b>
	)	
<b>NATIONAL MERIT INSURANCE</b>	)	<b>PRE-FILED DIRECT</b>
<b>COMPANY</b>	)	<b>TESTIMONY OF</b>
	)	<b>DAVID M. ELKINS</b>
A Washington Domestic Insurer.	)	
	)	
_____ Applicant.	)	

**A. Background Information**

**1. Q: Please state your name for the record.**

A: My name is David M. Elkins.

**2. Q: Can you state for the record your purpose for being here today?**

A: Yes. I serve as Senior Vice President of National Merit Insurance Company, a Washington-domiciled insurance company. For convenience I will refer to this entity as National Merit throughout my testimony. I am here today to testify in support of National Merit's Application for Redomestication, which I may refer to as the "Application."

**3. Q: How long have you been associated with National Merit?**

A: I have been associated with National Merit since February 13, 2009, when the company was acquired by Unitrin for integration into the Unitrin Direct operating segment. My role with the company is as Senior Vice President.

4. **Q: Do you currently hold any other professional titles, positions or designations?**

A: Yes. Currently I am Chief Actuary and Appointed Actuary for National Merit and for its affiliates within the Unitrin Direct operating segment. In addition, I am a Fellow of the Casualty Actuarial Society (FCAS) and Member of the American Academy of Actuaries (MAAA).

5. **Q: Please describe your educational background.**

A: I earned my Bachelor of Science degree from the University of Illinois.

6. **Q: Have you been authorized by National Merit to speak on its behalf at this Redomestication hearing?**

A: Yes, I have been authorized to speak on behalf of National Merit in my capacity as Senior Vice President.

7. **Q: Could you give us a brief description of your involvement and role in the proposed Redomestication?**

A: Yes. In my role as National Merit's Senior Vice President, I personally reviewed and commented on various drafts of the regulatory filings and I was consulted by our business personnel and legal counsel on various issues related to the proposed redomestication and the related regulatory filings, and I generally have been involved in and have personal knowledge of National Merit's internal business considerations and planning in connection with this matter.

8. **Q: As part of your involvement with this proposed redomestication, did you have occasion to review the Application that is the subject of this proceeding and the supplemental materials provided to the OIC and, if so, do you believe that the Application and the supplemental materials provided to the OIC are complete, true and current in all material respects?**

A: Yes, I personally reviewed the Application and the supplemental materials and correspondence provided to the OIC and I believe those materials are complete, true and current in all material respects.

9. **Q: Have there been any material changes with respect to the information contained in the Application?**

A: The Illinois Department of Insurance has provided a letter of no-objection, advising that the Director of Insurance has no objection to and will approve the redomestication of National Merit from Washington to Illinois. I have attached a copy of that letter with my testimony and it is identified as Exhibit A.

**B. Overview of Unitrin Direct Operating Segment**

1. **Q: Would you please explain, in very general fashion, the relationship between National Merit and Unitrin?**

A: Unitrin, Inc., ("Unitrin"), is a diversified financial services company with subsidiaries engaged in the property and casualty insurance, and life and health insurance businesses. The only business of Unitrin is holding, directly or indirectly, the issued and outstanding common stock of its various operating

subsidiaries and marketable securities. Unitrin is the ultimate parent of National Merit.

Unitrin maintains an operating segment in Illinois known as Unitrin Direct which currently has seven companies domiciled in Illinois, along with a significant portion of its administrative offices.

The subsidiaries which comprise the Unitrin Direct business segment write a broad spectrum of automobile insurance risks, ranging from preferred to nonstandard private passenger automobile customers and personal homeowners, renters and condo insurance in selected markets. Such business is written on a “direct-to-consumer” basis, meaning that neither independent nor career agency force insurance producers are used in the distribution process, but rather these products are sold primarily online through the internet or through licensed employee agents in one of our call centers. Marketing occurs through direct mail advertisements, Web insurance portals, Web sites and other various forms of direct-to-consumer advertising. Because of the similar business models between the Unitrin Direct segment and National Merit, they are housed within the Unitrin Direct segment of Unitrin’s property and casualty insurance operations.

**C. The Business Rationale for the Transaction**

- 1. Q: Can you please summarize the business purpose or rationale behind National Merit’s Application?**

A: Yes. The Unitrin Direct segment of Unitrin's property and casualty insurance operations, including National Merit, all utilize a "direct-to-consumer" model, and, as I mentioned earlier, operate as part of the same business segment. A significant portion of the Unitrin Direct administrative offices are domiciled in Illinois. The business purpose is essentially to conform National Merit's domicile to the situs of its operations and administration, and to complete consolidation in Illinois of National Merit's administration and operations, including financial and legal reporting, financial examinations and other management and reporting responsibilities.

**2. Q: Does National Merit believe the proposed redomestication is in the best interests of the company and, if so, why?**

A: Yes, the proposed redomestication is in the best interests of National Merit. National Merit has applied for redomestication because its parent company and other affiliates are domiciled in Illinois along with a significant portion of its administrative offices. National Merit hopes to simplify administration, enhance management of its operations by consolidating financial and legal reporting, financial examinations, and other management and reporting responsibilities, and, in turn, reduce its operating expenses while enhancing its operating capabilities.

**3. Q: Does National Merit believe the proposed redomestication is in the best interests of Washington policyholders including whether their rights and privileges under their National Merit contracts are protected? If so, why?**

A: Yes, the proposed redomestication is in the best interests of Washington policyholders and their rights and privileges under their National Merit contracts are

protected. The proposed redomestication to Illinois will be invisible to National Merit's policyholders in Washington State because the company plans for no changes in its distribution model in Washington State, claims handling, or methods of servicing these policyholders as a result of the proposed redomestication. With regard to policies which currently have been issued to Washington policyholders and policies which will be issued to Washington policyholders in the future, the laws of Washington will apply just as if National Merit were still a domestic insurer.

**4. Q: Does National Merit believe the proposed redomestication is in the best interests of the public? If so, why?**

A: Yes, National Merit believes the proposed redomestication is in the best interests of the public. National Merit intends to continue to conduct its insurance business in Washington State as a foreign insurer. We believe it will qualify and become licensed as such without interruption if the Application for Redomestication is approved, and the proposed redomestication to Illinois will be invisible to the public. As a direct marketer, there are no changes to our distribution model in Washington. Overall, we believe redomestication will strengthen our ability to remain a competitive insurance option to Washington's public by enabling National Merit to reduce operating expenses and enhance operating capabilities.

**D. Miscellaneous**

**1. Q: Is there anything else that you would like to add at this time?**

A: Yes. On behalf of all of us at National Merit, I would like to thank the OIC and Judge Petersen for their attention to this matter and for their professionalism and diligence in reviewing National Merit's Application. I hereby request and

strongly urge approval of National Merit's pending Application as soon as possible.

**Verification**

I, David M. Elkins, declare under penalty of perjury of the laws of the State of Washington that the foregoing answers are true and correct.

Dated this 1st day of March, 2011, at Chicago, Illinois.

A handwritten signature in cursive script, appearing to read "David M. Elkins", written over a horizontal line.

David M. Elkins  
Senior Vice President  
National Merit Insurance Company



# Illinois Department of Insurance

Exhibit A

PAT QUINN  
Governor

MICHAEL T. McRAITH  
Director

January 19, 2011

Ms. Patricia D. Peterson  
Chief Hearing Officer, Hearing Unit  
Office of Insurance Commissioner for State of Washington  
PO Box 40255  
Olympia, WA 98504-0255

Re: National Merit Insurance Company

Dear Ms. Peterson:

Please be advised the Director of Insurance has no objection to and will approve the redomestication of National Merit Insurance Company from Washington to Illinois on the date you choose to effect such redomestication.

Very truly yours,

Etta Mae Credi (Mrs.)  
Deputy Director  
Financial/Corporate Regulation Division

EMC:alt

CC: Meg O'Hara  
Unitrin Direct  
One W. Wacker Drive, Ste 3700  
Chicago, IL 60601