



OFFICE OF
INSURANCE COMMISSIONER

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HEARINGS UNIT
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BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER

In the Matter of:)	Docket No. 10-0235
)	
THE APPLICATION FOR)	FINAL ORDER APPROVING
REDOMESTICATION OF NATIONAL)	APPLICATION FOR
MERIT INSURANCE COMPANY,)	REDOMESTICATION
)	FROM THE STATE OF WASHINGTON
A Washington Domestic Insurer.)	TO THE STATE OF ILLINOIS
)	

TO: Margaret L. O'Hara
Vice President and Secretary
National Merit Insurance Company
500 S. Broad
Meriden, CT 06450

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COPY TO: Mike Kreidler, Insurance Commissioner
Michael G. Watson, Chief Deputy Insurance Commissioner
James T. Odiorne, CPA, JD, Deputy Commissioner, Company Supervision Div.
Ronald Pastuch, Holding Company Manager, Company Supervision Division
Gayle Pasero, CPCU, Company Licensing Manager, Company Supervision Div.
Carol Sureau, Esq., Deputy Commissioner, Legal Affairs Division
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Pursuant to Chapter 48.04 RCW, Chapter 34.05 RCW, RCW 48.07.210, and specifically RCW 48.07.210(2), and after notice to interested parties and persons (see facts found concerning notice, below), the above-entitled matter came on regularly for hearing before the Insurance Commissioner of the state of Washington commencing at 10:00 a.m. on Monday, March 7, 2011, by telephone as authorized by RCW 34.05.449(3). All persons to be affected by the above-entitled matter were given the right to be present at such hearing, during the giving of testimony, and had reasonable opportunity to inspect all documentary evidence; to examine witnesses and present oral and written statements. The Insurance Commissioner was represented by Marcia G. Stickler, Esq., Staff Attorney in its Legal Affairs Division. The Applicant, National Merit Insurance Company, was represented by Jeffrey L. Gingold, Esq., of Lane Powell, PC, in Seattle, Washington.

NATURE OF PROCEEDING

On August 20, 2010, National Merit Insurance Company filed an Application for Redomestication with the Washington State Office of Insurance Commissioner, requesting approval to transfer its corporate domicile from the state of Washington to the state of Illinois.

Applications for redomestication are controlled by Title 48 RCW and specifically RCW 48.07.210(2). Pursuant to RCW 48.07.210(2), *[t]he commissioner shall approve any proposed transfer of domicile unless the commissioner determines after a hearing, pursuant to such notice as the commissioner may require, that the transfer is not in the best interests of the public or the insurer's policyholders in this state.* On December 8, therefore, pursuant to RCW 48.04.010(1), the undersigned received and filed a request for hearing from the Washington State Insurance Commissioner relative to this Application for Redomestication, which began the administrative hearing process. Should this Application be approved, National Merit Insurance Company would cease to be a domestic insurer of Washington State and would become a domestic insurer of the state of Illinois. At that time, National Merit Insurance Company would become a foreign insurer in the state of Washington.

FINDINGS OF FACT

Having considered the written and oral evidence presented at the hearing, and the documents on file herein, the undersigned presiding officer designated to hear and determine this matter finds as follows:

1. The hearing was duly and properly convened on March 7, 2011, and all substantive and procedural requirements under the laws of the state of Washington have been satisfied.
2. National Merit Insurance Company (National Merit) is an active Washington domestic insurance company. The ultimate parent company of National Merit is Unitrin, Inc. Unitrin, Inc. is a diversified financial services company with its operations in Illinois, with subsidiaries

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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 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. 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 [Ex. 1, Application, organization chart; Testimony of David M. Elkins, Senior Vice President of National Merit Insurance Company.]

3. On August 20, 2010, National Merit filed an Application for Redomestication, with detailed attachments concerning its history, personnel and financial status, filed pursuant to RCW 48.07.210. The proposed effective date is to be scheduled to occur after approval of the redomestication, if any, is given herein. National Merit has, therefore, provided the Washington State Insurance Commissioner (Washington Commissioner) with at least thirty days advance written notice of its proposed plans to redomesticate.

4. If this proposed redomestication is approved, the result will be that National Merit will be domiciled in the state of Illinois instead of the state of Washington. The state of Illinois has provided a letter of no objection, advising that its Director of Insurance has no objection to and will approve the redomestication of National Merit from Washington to Illinois. [Testimony of Elkins, Ex. A.] Further, National Merit is currently qualified to be admitted to do business in Washington as a foreign insurer as of the effective date of approval of its Application for Redomestication if granted. [Testimony of Gayle D. Pasero, Company Licensing Manager, Office of the Washington State Insurance Commissioner.]

5. National Merit has applied for redomestication because under its organizational structure described above and included in its Application [Ex. 1] its Unitrin Direct segment of Unitrin's property and casualty insurance operations, including National Merit, all utilize a "direct-to-consumer model and 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. [Testimony of Elkins.]

6. National Merit intends to maintain its current market position in Washington State if the Application for Redomestication is approved, and intends that 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 producer base in Washington State, claims handling, or methods of servicing these policyholders as a result of the proposed redomestication. Further, the proposed redomestication of National Merit, if approved, will not have any substantive impact on the contractual or statutory rights of Washington policyholders and will not materially

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impact any pending litigation filed in the state of Washington involving Washington policyholders. [Testimony of Elkins.]

7. National Merit has filed a request to redomesticate to Illinois with the Illinois Department of Insurance. The Illinois Department of Insurance has advised the undersigned that it does not object to the redomestication of National Merit, and it is expected that the Illinois Department of Insurance will issue an official letter approving the redomestication after the Washington Commissioner completes his review of the Application in order to coordinate the effective date of the redomestication between the two states. Further, the Washington Commissioner has determined that National Merit qualifies to be admitted in Washington State as a foreign insurer [Testimony of Elkins; Testimony of Pasero.]

8. The Notice of Hearing on Application for Redomestication herein entered by the undersigned on February 10, 2011, which contains information concerning the proposed redomestication and the public hearing to be held concerning it, was published in its entirety on the Washington Commissioner's web site since, at least, February 10, 2011 and remained there continuously through the date of hearing, March 7, 2011. Therefore reasonable and adequate notice of the hearing concerning this proposed redomestication was provided. [Testimony of Pasero; Ex. 1, Notice of Hearing.] Further, in the Notice of Hearing as published, all interested individuals and entities were advised of their right to submit either support for, or objections to, the proposed redomestication by letter on or before 9:00 a.m. on March 7, 2011, to the undersigned. Other than the pre-filed direct testimony submitted on behalf of National Merit and the Washington Commissioner, no such communications of any kind were received by the undersigned. Further, no such communications were received by the Washington Commissioner [Testimony of Pasero] or by National Merit [Testimony of Elkins.]

9. Given the above Findings of Facts, it cannot be found that the proposed transfer of domicile of National Merit from Washington State to the state of Wisconsin is not in the best interests of the public or in the best interests of National Merit's policyholders. [Testimony of Elkins; Testimony of Pasero.]

10. The sole witness for the Washington Commissioner was Gayle D. Pasero, Company Licensing Manager in its Company Supervision Division. Ms. Pasero presented her testimony in a detailed and credible manner and exhibited no apparent biases. Ms. Pasero also filed her testimony in written form prior to the hearing as required; said written prefiled testimony is included in the hearing file. [Ex. 1.]

11. The sole witness appearing on behalf of National Merit was David M. Elkins, who is Senior Vice President of National Merit Insurance Company. Mr. Elkins presented his testimony in a detailed and credible manner and exhibited no apparent biases. Mr. Elkins also filed his testimony in written form prior to the hearing as required; said written prefiled testimony is included in the hearing file. [Ex. 1.]

12. Based upon the above Findings of Fact, it is here found that the Application for Redomestication filed herein by National Merit Insurance Company, which proposes to transfer their domicile from the state of Washington to the state of Illinois and is detailed in that Application, is reasonable under the circumstances and should be approved.

CONCLUSIONS OF LAW

1. Pursuant to Title 48 RCW, and specifically RCW 48.07.210, the Washington State Office of Insurance Commissioner has jurisdiction over National Merit Insurance Company.
2. Based upon the above Findings of Facts, National Merit Insurance Company filed its Application for Redomestication with the Washington Commissioner on August 20, 2010 with a proposed effective date after said Application was reviewed and approved by the Washington Commissioner. Therefore, this company has provided at least thirty days advance written notice of its plan to the Washington Commissioner, as required by RCW 48.07.210(2).
3. Based upon the above Findings of Facts, reasonable and adequate notice of the hearing required by the Washington Commissioner was given, in compliance with RCW 48.07.210(2).
4. Based upon the above Findings of Facts above, after the hearing herein, it cannot be determined that the proposed transfer of domicile of National Merit Insurance Company from the state of Washington to the state of Illinois is not in the best interests of the public or National Merit Insurance Company's Washington policyholders. Therefore, because no such determination has been made, as required by RCW 48.07.210(2), the Washington Commissioner must approve this Application for Redomestication.

ORDER

On the basis of the foregoing Findings of Fact and Conclusions of Law, to the effect that the statutory criteria for approval of this Application for Redomestication has been met,

IT IS HEREBY ORDERED that the Application for Redomestication of National Merit Insurance Company, which seeks approval of the Washington State Office of Insurance Commissioner to transfer its domicile from the state of Washington to the state of Illinois, is **GRANTED** effective as of the date of entry of the oral Order herein which is consistent with this written Order and which was entered at close of hearing on March 7, 2011.

IT IS FURTHER ORDERED that the actual effective date of the transfer of domicile from the state of Washington to the state of Illinois shall be the effective date that the state of Illinois has determined that National Merit Insurance Company shall become a domestic Illinois insurer. Likewise, that same date shall be the effective date on which National Merit Insurance Company shall become admitted as a foreign insurer in the state of Washington. Thus, these transactions

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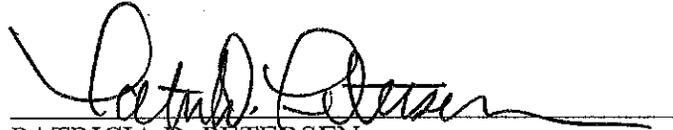
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shall become effective on the same date in order to allow no gap in clear state of domicile as between the state of Washington and the state of Illinois.

This Order is entered pursuant to Title 48 RCW, and specifically RCW 48.07.210(2), Title 34 RCW and regulations applicable thereto.

ENTERED at Tumwater, Washington, this 10th day of March, 2011.



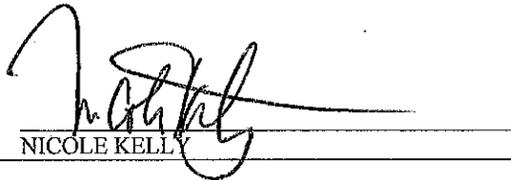
PATRICIA D. PETERSEN

Presiding Officer

Declaration of Mailing

I declare under penalty of perjury under the laws of the State of Washington that on the date listed below, I mailed or caused delivery through normal office mailing custom, a true copy of this document to the following people at their addresses listed above: Margaret L. O'Hara, Jeffrey L. Gingold, Esq., Mike Kreidler, Michael G. Watson, Carol Sureau, Esq., Marcia G. Stickler, Esq. James T. Odiorne, CPA, JD, Ronald Pastuch, and Gayle Pasero, CPCU.

DATED this 10th day of March, 2011.



NICOLE KELLY