MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

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OFFICE OF
INSURANCE COMMISSIONER

In the Matter of	)	No. G04-59
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
NATIONAL MERIT PACIFIC INSURANCE	)	AND ORDER ADOPTING REPORT
COMPANY	)	OF
	)	FINANCIAL EXAMINATION
A Domestic Insurer.		

BACKGROUND

An examination of the financial condition of **NATIONAL MERIT INSURANCE COMPANY** (the Company) as of December 31, 2002, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on September 10, 2004. The Company responded on October 6, 2004, that it had no comments or objections to the financial exam report.

The Commissioner or a designee has considered the report, the relevant portions of the examiners work papers, and submissions by the Company.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 17 of the report.

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CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **NATIONAL MERIT INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-4.

1. The Company is ordered to properly classify Washington State sales tax in the NAIC Annual Statements pursuant to RCW 48.05.250 and the NAIC Annual Statement Instructions. Instruction 1, Examination Report, page 2.

2. The Company is ordered to properly classify un-cashed drafts outstanding in the correct statement account pursuant to RCW 48.05.250 and NAIC Annual Statement Instructions. Instruction 2, Examination Report, page 2.

3. The Company is ordered to maintain a stock register in order to meet the full and adequate accounts and records requirement of RCW 48.05.280. Instruction 3, Examination Report, page 3.

4. The Company is ordered to comply with RCW 48.31B.030 by maintaining its books, accounts, and records so that they clearly and accurately disclose the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges. Instruction 4, Examination Report, page 3.

5. The Company is ordered to comply with RCW 48.05.250 and the NAIC Annual Statement Instructions by separating premium receivables into two categories: premiums in the course of collection, which refers to billed and uncollected premiums, and premiums booked and not yet due. Instruction 5, Examination Report, page 4.

6. The Company is ordered to comply with RCW 48.31B.030(1)(b) which requires prior approval of agreements involving persons in its holding company system. Instruction 6, Examination Report, page 4.

7.. The Company is ordered to consider settlement of its tax liabilities and any estimated tax payments with its parent company, Unigard, Inc., in a timely fashion in compliance with the Inter-Company Tax Agreement. Comments and Recommendations 1, Examination Report, page 4.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 26th day of October, 2004.

MIKE KREIDLER
Insurance Commissioner