

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
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STATE OF ALASKA

DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

IN THE MATTER OF THE PROPOSED)
ACQUISITION AND CHANGE OF)
CONTROL OF)
UMIALIK INSURANCE COMPANY,)
NAIC No. 40126)
_____)

Case No. H 10-05

FINDINGS OF FACT, CONCLUSIONS OF LAW, AND FINAL ORDER

Background

On or about September 13, 2010, Western National Mutual Insurance Company, a Minnesota corporation (Western National), under AS 21.22.010 and 21.22.020, submitted to the Division of Insurance (division) a statement for acquisition of control of Umialik Insurance Company, an Alaska domiciled property and casualty insurer (Umialik).

Umialik is owned by Ukpeagvik Iñupiat Corporation (UIC), the ultimate controlling person, and received a certificate of authority from the division in 1981. Umialik also holds a certificate of authority from the Office of the Insurance Commissioner in Washington State and conducts business in both Alaska and Washington. Western National is the lead insurer of a group of six insurance companies that write property/casualty insurance products. These companies are domiciled in various states including Minnesota and Illinois. The companies write insurance in the upper midwest, and northwest areas of the United States.

Western National requested approval of the proposed acquisition of all of the issued and outstanding voting securities of Umialik by filing a Statement Regarding the Acquisition of

1 Control of or Merger with a Domestic Insurer (Form A) with the division. This filing,
2 however, was not accompanied by the required filing fee of \$2,000. After review of the filing,
3 the division staff identified areas that needed further explanation or documentation. On
4 October 4, 2010, the division advised Western National of the deficiencies of its filing,
5 including the failure to pay the filing fee. On October 7, 2010, the division received from
6 Western National the filing fee and the additional information requested by the division.
7

8 Under the authority of AS 21.06.180 and AS 21.22.030, a Notice of Hearing dated
9 October 15, 2010 was published for the purpose of receiving public comments on the plan of
10 acquisition of control of Umialik. The hearing notice for the Form A hearing was put on the
11 division website on October 20, 2010 and it was published in the Anchorage Daily News on the
12 same day, October 20, 2010. Prior to that time, the division also posted on its website Western
13 National's Form A Filing. On or about October 25, 2010, the division staff review
14 memorandum regarding the proposed transaction also was posted on the division's website.

15 A hearing was held before the Director of Insurance, Linda S. Hall, on Monday,
16 November 15, 2010. Stuart Henderson, President of Western National Mutual Insurance
17 Company, was present by telephone and testified for Western National. Additional
18 representatives of Western National were present by telephone including Leon Smith, Joseph
19 Pingatore, Mary Manley, and David Eide. Theresa "Tessa" L. Wilson, President, and George
20 Haynes, Vice President, were present for Umialik. Mary Mastascusa, CFO of Umialik, was
21 present by telephone. Chris Morgan, CFO and interim CEO, and Tim Schuerch, Internal
22 Counsel for UIC were present. Gloria Glover, Chief Financial Examiner, and Maxine
23 Froemling, Senior Financial Examiner, appeared for the division. Stuart Hendersen, Chris
24 Morgan, Tessa Wilson, and Gloria Glover made presentations or provided comments during the
25 hearing.
26

Findings of Fact

1
2 1. Western National is a member of the Western National Insurance Group, a
3 Minnesota-based group that currently consists of six members. Western National is the lead
4 company and ultimate parent. One of the members, Western National Assurance Company,
5 holds a certificate of authority in Alaska, but it does not write business in Alaska. The group
6 operates under a business pooling arrangement whereby all premiums, losses, and expenses are
7 shared according to the pooling percentages specified in the agreement. All pooled members
8 operate under a common management and board of directors. A.M. Best Credit Report, as of
9 September 8, 2010, has assigned all members of the group a Financial Strength Rating of 'A'
10 (Excellent) based on the group's excellent risk-adjusted capitalization and trend of strong
11 operating performance. According to A.M. Best's rating rationale, these results were obtained
12 through the group's adherence to strict underwriting fundamentals, execution of a conservative
13 investment policy and a commitment to long-term agency relationships. The group has had
14 good operating performance over the past five years, with five consecutive years of
15 underwriting profits and increasing net investment income.
16

17 2. According to the A.M. Best's rating rationale, the Western National Insurance Group
18 has a concentration of exposures in Minnesota where the group currently writes the majority of
19 its business. This concentration exposes Western National to weather-related loss activity and
20 increased competitive market and regulatory conditions. The group has been working to
21 increase its geographic diversification by reducing property exposures and implementing a
22 comprehensive reinsurance program that includes both catastrophe and aggregate coverages.
23 The company indicates that the purchase of Umialik furthers the goal of geographic
24 diversification.
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1 3. As of December 31, 2009, the audited consolidated statutory financial report of
2 Western National Insurance Group included an unqualified opinion. The audited balance sheet
3 showed Total Admitted Assets of \$569,817,286; Total Liabilities of \$334,690,250; and Total
4 Surplus of \$235,127,036. The Income Statement reported Underwriting Gain of \$10,087,957,
5 Investment and Other Income of \$21,592,220, Dividends to policyholders of \$3,010,753, and
6 Net Income of \$20,483,358.

7
8 4. Western National proposes to buy from UIC all issued and outstanding common
9 stock of Umialik and thereby change the control of Umialik pursuant to a Stock Purchase
10 Agreement. UIC owns 100 percent of Umialik's issued and outstanding stock. Umialik has no
11 other security holders and has no borrowed money due and no surplus notes as of September
12 30, 2010. A copy the Stock Purchase Agreement is attached as 1.1 to the Form A application.

13 5. The purchase price of the stock will be \$15 million. The purchase price represents
14 1.5 times the policyholder surplus at the time the transaction is closed of \$10 million. UIC
15 represents, in part, that the statutory capital and surplus of Umialik will not be less than
16 \$10,000,000 as of the last day of the last calendar month for which interim financial statements
17 are provided to the Western National by UIC, at or prior to closing. An extraordinary dividend
18 will be paid by Umialik Insurance Company to UIC in the amount by which the policyholder
19 surplus exceeds \$10,000,000. The stock purchase agreement was the result of negotiations
20 between the parties.

21
22 6. The stockholder dividend to be paid to UIC is proposed to be \$9,028,546, based on
23 the September 30, 2010 financial statement filed with the division. The dividend meets the
24 definition of an extraordinary dividend in AS 21.22.100 and a notice and request for approval
25 was filed with the division on September 21, 2010. While the decision of the director on the
26 payment of the extraordinary dividend is a separate action of the director under AS 21.22.100,

1 the effect of the dividend on Umialik has been reviewed in the context of Western National's
2 Form A filing because payment of the dividend is part of the purchase transaction.

3 7. Umialik's policyholder surplus of \$10 million after the proposed transaction is
4 reasonable in relation to Umialik's outstanding liabilities and will be adequate to meet its
5 financial needs. After the proposed transaction is complete, the division estimates that
6 Umialik's risk based capital ratio as it is defined under AS 21.14 will be 454 percent, which is
7 well above the risk based capital level of 200 percent that triggers regulatory scrutiny as a
8 company action level event.

9
10 8. After the acquisition, the current Board of Directors of Umialik will resign and seven
11 new directors will be elected. All new directors are associated with Western National. After
12 the acquisition, new officers will be elected and Theresa L. Wilson, current President of
13 Umialik, will be elected Senior Vice President by the new Board of Directors. Umialik will
14 join the Management and Expense Agreement and the Reinsurance Pooling Agreement of the
15 Western National Insurance Group. All employees of Umialik will be given the opportunity to
16 transfer employment to Western National.

17 9. The Board of Directors for Western National and the future directors and
18 management of Umialik have significant experience in the insurance industry and no adverse
19 regulatory actions were found during their tenures as directors and officers.

20 10. In its Form A filing, Western National has stated that it has no present plans to
21 make any other material changes in Umialik's business, to liquidate the company, or to sell any
22 of its assets (other than in the ordinary course of business).

23
24 11. The Western National Insurance Group has one subsidiary licensed in Alaska,
25 Western National Assurance Company. No insurer in the group currently writes business in
26 Alaska. The acquisition will not lessen competition or create a monopoly in the state because

1 there will be no consolidation of premium writings under one group nor any immediate change
2 in the writings of Umialik subsequent to the closing of the transaction.

3 12. The division staff has reviewed the Form A application for the acquisition and
4 change of control of Umialik and has recommended approval of the transaction based on the
5 following facts:

6 (a) after the acquisition and change of control, Umialik will continue to satisfy
7 the requirements for a certificate of authority to write the lines of insurance for which it is
8 presently authorized;

9 (b) the effect of the proposed acquisition of control would not substantially
10 lessen competition in insurance in Alaska or tend to create a monopoly in this state;

11 (c) the financial condition of Western National is not such that the completion
12 of the proposed transaction would jeopardize the financial stability of Umialik or prejudice the
13 interest of its policyholders;

14 (d) Western National's plans and proposals will not adversely affect
15 policyholders, and, therefore, can be considered fair and reasonable to the policyholders of
16 Umialik and not against the public interest;

17 (e) there is no evidence that the competence, experience, and integrity of the
18 persons who will control the operation of Umialik after the change of control is such that it
19 would be against the interests of Umialik's policyholders and the public to allow this proposed
20 transaction; all rights and privileges of Umialik's policyholders will remain the same after the
21 proposed transaction as they are at this time; and

22 (f) there is no evidence that the acquisition and change of control of the
23 company would be hazardous or prejudicial to the insurance-buying public.
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1 13. The Notice of Hearing was published in this matter 26 days in advance of the
2 hearing. The notice invited any interested person to present at the hearing oral or written
3 statements or arguments relevant to the director's consideration of the proposed purchase
4 transaction. The notice also allowed for written statements or arguments to be sent to the
5 division on or before November 15, 2010. The division has received no responses to the Notice
6 of Hearing and has received no communications about any concerns or objections from the
7 public regarding the proposed transaction. No interested persons or members of the public
8 appeared at the hearing. Stuart Henderson of Western National testified at the hearing that
9 Western National has had no communications of any kind from its policyholders or Umialik's
10 regarding the proposed transaction. Tessa Wilson of Umialik testified at hearing that Umialik
11 has received positive reactions and comments from its agency base regarding the proposed
12 transaction.

13 Conclusions of Law

14
15 Based on the foregoing Findings of Fact, the director makes the following Conclusions
16 of Law:

- 17
- 18 1. Western National filed the statement required by AS 21.22.010 with the Alaska
19 Division of Insurance before the requested effective date of the proposed transaction. The
20 statement filed under oath by the acquiring party contained the information required by
21 AS 21.22.020, as supplemented by the company on October 7, 2010.
 - 22 2. Based on Findings of Fact Nos. 1-12, after the acquisition Umialik would continue to
23 satisfy the requirements for the issuance of a certificate of authority to write the line or lines of
24 insurance for which it is presently authorized to write, thereby providing no basis to disapprove
25 the proposed transaction under AS 21.22.030(a)(1).
26

1 3. Based on Findings of Fact No. 11, the effect of the acquisition and change of control
2 of Umialik will not substantially lessen competition in insurance in the State of Alaska or tend
3 to create a monopoly in the State of Alaska, thereby providing no basis to disapprove the
4 proposed transaction under AS 21.22.030(a)(2).

5 4. Based on Findings of Fact No. 7, Western National's financial condition is not such
6 that it might jeopardize the financial stability of Umialik or prejudice the interest of its
7 policyholders or the interests of any remaining security holders who are unaffiliated with
8 Western National, thereby providing no basis to disapprove the proposed transaction under
9 AS 21.22.030(a)(3).

10 5. Based on Findings of Fact Nos. 1-12, the terms of the acquisition are not unfair or
11 unreasonable to the present security holders of Umialik, thereby providing no basis to
12 disapprove the proposed transaction under AS 21.22.030(a)(4).

13 6. Based on Findings of Fact No. 10, Western National does not have plans to liquidate
14 Umialik, sell its assets, or consolidate or merge it with any person, or to make any other
15 material change in its business or corporate structure or management that is unfair and
16 unreasonable to Umialik's policyholders or against the public interest, thereby providing no
17 basis to disapprove the proposed transaction under AS 21.22.030(a)(5).

18 7. Based on Findings of Fact No. 9, the competence, experience, and integrity of
19 Western National and its directors and management is not such that it would be against the
20 interests of Umialik's policyholders or the public to permit the acquisition, thereby providing
21 no basis to disapprove the proposed transaction under AS 21.22.030(a)(6).

22 8. Based on Findings of Fact Nos.1-12, the acquisition of Umialik by Western National
23 is not likely to be hazardous or prejudicial to the insurance-buying public, thereby providing no
24 basis to disapprove the proposed transaction under AS 21.22.030(a)(7).

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Final Order

IT IS HEREBY ORDERED THAT, pursuant to the provisions of AS 21.22.030(a), the proposed acquisition of control of Umialik Insurance Company is approved as filed.

Pursuant to AS 21.06.230 and Alaska Appellate Rule 602(a)(2), an aggrieved party may appeal this final decision within 30 days. See the attached Notice of Final Order and Appeal Rights.

This order is effective November 22, 2010.

DATED this 22nd day of November, 2010 at Anchorage, Alaska.



Linda S. Hall
Director