

Report of Examination of

**Progressive Advanced Insurance Company**  
Mayfield Village, Ohio

As of December 31, 2012

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Columbus, Ohio  
August 6, 2013

Honorable Mary Taylor  
Lt. Governor/Director  
Ohio Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**Progressive Advanced Insurance Company**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company”). The Company is 100% owned by Progressive Direct Holdings, Inc. (“PDHI”) and PDHI is 100% owned by The Progressive Corporation. The examination was conducted at Progressive’s home office, located at 6300 Wilson Mills Road, Mayfield Village, Ohio.

**Scope of Examination**

The Department last examined the Company as of December 31, 2007. The current examination covers the period of January 1, 2008 through and including December 31, 2012.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

The State of Ohio took the lead role to perform the coordinated exam of the Progressive insurance companies and the States of Indiana, Louisiana, Michigan, New Jersey, New York, Texas and Wisconsin were all participants on the group examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For years covered by the examination, the certified public accounting firm of PricewaterhouseCoopers (“PwC”) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by PwC during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers’, employees’, and agents’ welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

### **Management and Control**

#### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<u><b>Name</b></u>	<u><b>Principal Occupation</b></u>
Toby Kramer Alfred	Customer Relation Management Business Leader, Personal Lines - Progressive
James Russell Haas	Process Business Leader, Claims Resolution – Progressive
Caroline Mae Koran	Business Leader Customer Care Process, Personal Lines – Progressive
Sanjay Mahesh Vyas	Personal Lines Product Management General Manager – Progressive
Scott Wesley Ziegler	National Product Management Leader, Personal Lines - Progressive

## Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

<u>Name</u>	<u>Title</u>
Sanjay Mahesh Vyas	President
Michael Robert Uth	Secretary
Daniel Joseph Witalec	Treasurer

## Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Progressive Corporation is the ultimate controlling party of the insurance holding company system.

## Territory and Plan of Operations

The Company is licensed to transact business in the District of Columbia and the following states:

Alabama	Alaska	Arizona	Arkansas	California
Colorado	Delaware	Florida	Georgia	Hawaii
Idaho	Illinois	Indiana	Iowa	Kansas
Kentucky	Louisiana	Maine	Maryland	Mississippi
Missouri	Montana	Nebraska	Nevada	New Hampshire
New Mexico	New York	North Carolina	North Dakota	Ohio
Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina
South Dakota	Tennessee	Texas	Utah	Vermont
Virginia	Washington	West Virginia	Wisconsin	

The following schedule illustrates the Company's premium written in 2012 by line of business:

	<b>Direct</b>	<b>Assumed</b>	<b>Ceded</b>	<b>Net</b>	<b>Percent</b>
Private passenger auto liability	\$ 464,334,407	\$ 143,258,331	\$ 464,334,407	\$ 143,258,331	65.4%
Auto physical damage	243,717,912	71,485,167	243,717,912	71,485,167	32.6%
Inland marine	9,055,200	2,279,296	9,055,200	2,279,296	1.0%
Commercial auto liability	-	1,118,989	-	1,118,989	0.5%
Other liability – occurrence	2,644,856	892,703	2,644,856	892,703	0.4%
All other lines	<u>-</u>	<u>151,589</u>	<u>-</u>	<u>151,589</u>	<u>0.1%</u>
Totals	<u>\$ 719,752,375</u>	<u>\$ 219,186,074</u>	<u>\$ 719,752,375</u>	<u>\$ 219,186,074</u>	<u>100.0%</u>

## Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, during the examination period:

	2012	2011	2010	2009	2008
Premiums earned	<u>\$ 216,309</u>	<u>\$ 200,188</u>	<u>\$ 184,752</u>	<u>\$ 166,457</u>	<u>\$ 148,103</u>
Losses incurred	137,089	121,240	113,209	102,079	90,427
Loss adjustment expense incurred	23,459	22,329	22,163	19,957	18,754
Other underwriting expense incurred	46,547	46,180	41,709	34,715	30,793
Aggregate write-ins	—	—	<u>(32)</u>	<u>32</u>	—
Total underwriting deductions	<u>207,094</u>	<u>189,750</u>	<u>177,049</u>	<u>156,782</u>	<u>139,975</u>
Net underwriting gain	\$ 9,215	\$ 10,438	7,703	9,675	\$ 8,128
Loss ratio	63.4%	60.6%	61.3%	61.3%	61.1%
Loss adjustment expense ratio	<u>10.8%</u>	<u>11.2%</u>	<u>12.0%</u>	<u>12.0%</u>	<u>12.7%</u>
Loss and LAE ratio	74.2%	71.8%	73.3%	73.3%	73.8%
Other underwriting expense ratio	<u>21.2%</u>	<u>22.6%</u>	<u>22.0%</u>	<u>20.3%</u>	<u>20.4%</u>
Combined ratio	<u>95.4%</u>	<u>94.4%</u>	<u>95.3%</u>	<u>93.6%</u>	<u>94.2%</u>

### Reinsurance

The Company is a party to various reinsurance agreements including a pooling agreement with affiliated property casualty companies (“Direct Pool”). 100% of the underwriting business of each member company, net of external reinsurance, is ceded to Progressive Direct Insurance Company, the Direct Pool manager and a pool participant. The combined premiums, losses and expenses are then retroceded to each Direct Pool member based on pre-determined pooling percentages.

The Companies participating in the Direct Pool are listed below, each with their respective pooling percentage:

Progressive Direct Insurance Company	77.5%
Progressive Marathon Insurance Company	6.0%
Progressive Max Insurance Company	6.0%
Progressive Advanced Insurance Company	4.0%
Progressive Universal Insurance Company	4.0%
Progressive Premier Insurance Company of Illinois	2.0%
Progressive Paloverde Insurance Company	0.5%
Mountain Laurel Assurance Company	<u>0.0%</u>
	100.0%

The Direct Pool's affiliated assumed reinsurance transactions are a result of 90% quota-share reinsurance agreements with four of its non-pooled insurance affiliates. The Direct Pool's non-affiliated ceded reinsurance transactions primarily arise from its participation in voluntary state-provided reinsurance facilities.

Effective April 11, 2011, the Company and thirty-two affiliates entered into an excess of loss agreement with Swiss Reinsurance America Corporation ("Swiss Re"), that applies to commercial vehicle policies with vehicle liability limits in excess of \$1 million, but not to exceed \$2 million. The companies cede to Swiss Re \$1 million in excess of \$1 million.

The examination noted that the Company has policies and procedures in place to comply with SSAP 62R and 63.

### **Financial Statements**

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus  
Statement of Income  
Statement of Changes in the Capital and Surplus Account

**Statement of Assets  
December 31, 2012**

**Admitted assets**

Bonds	<u>\$ 128,183,523</u>
Total cash and invested assets	128,183,523
Investment income due and accrued	642,492
Uncollected premiums and agents' balances in the course of collection	16,289,967
Deferred premiums, agents' balances and installments booked but deferred and not yet due	111,528,187
Amounts recoverable from reinsurers	5,925,744
Net deferred tax asset	8,458,667
Receivables from parent, subsidiaries and affiliates	25,762,208
Aggregate write-ins for other than invested assets	
State tax credits	<u>84,672</u>
Total admitted assets	<u>\$ 296,875,460</u>

**Statement of Liabilities, Capital and Surplus  
December 31, 2012**

**Liabilities**

Losses	\$ 72,104,573
Reinsurance payable on paid losses and loss adjustment expenses	1,209,396
Loss adjustment expenses	15,025,828
Commissions payable, contingent commissions and other similar charges	2,036
Other expenses	652,258
Taxes, licenses and fees	1,806,317
Current federal and foreign income taxes	696,417
Unearned premiums	57,090,077
Advance premium	3,225,492
Ceded reinsurance premiums payable	3,803,084
Drafts outstanding	22,799,913
Aggregate write-ins for liabilities	
Miscellaneous other liabilities	1,023,504
Escheatable property	15,078
State plan liability	<u>703</u>
Total liabilities	179,454,676

**Capital and Surplus**

Common capital stock	3,000,000
Gross paid in and contributed surplus	98,925,602
Unassigned funds	<u>15,495,182</u>
Surplus as regards policyholders	<u>117,420,784</u>
Total liabilities, capital and surplus	<u>\$ 296,875,460</u>

**Statement of Income  
As of December 31, 2012**

Premiums earned	<u>\$ 216,309,471</u>
Losses incurred	137,089,322
Loss adjustment expenses incurred	23,458,584
Other underwriting expenses incurred	<u>46,546,520</u>
Net underwriting gain	9,215,045
Net investment income earned	1,602,502
Net realized capital losses less capital gains tax	<u>(51,415)</u>
Net investment gain	<u>1,551,087</u>
Net loss from agents' or premium balances charged off	(10,208,178)
Finance and service charges not included in premiums	10,693,017
Aggregate write-ins for miscellaneous income:	
Interest income on intercompany balances	42,788
Miscellaneous other income	28,620
Loss on receivable factoring	<u>(1,451)</u>
Total other income	<u>554,796</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>11,320,928</u>
Federal and foreign income taxes incurred	<u>3,975,055</u>
Net income	<u>\$ 7,345,873</u>

**Statement of Changes in the Capital and Surplus Account**  
(In thousands)

<u>Capital and Surplus</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital & surplus, prior year end	\$ 105,036	\$ 93,613	\$ 77,110	\$ 55,365	\$ 45,976
Net income	7,346	7,852	4,415	8,236	7,966
Change in net unrealized capital gains or (losses) less capital gains tax	-	277	(277)	-	-
Change in net deferred income tax	76	1,360	1,343	678	236
Change in non-admitted assets	405	(1,566)	(1,978)	(670)	(816)
Cumulative effect of changes in accounting principles	558	-	-	-	-
Paid in surplus adjustment	4,000	-3,500	13,000	13,500	2,004
Net change in capital and surplus	<u>12,385</u>	<u>11,423</u>	<u>16,503</u>	<u>21,745</u>	<u>9,389</u>
Capital and surplus, current year end	<u>\$ 117,421</u>	<u>\$ 105,036</u>	<u>\$ 93,613</u>	<u>\$ 77,110</u>	<u>\$ 55,365</u>

**Notes to Financial Statements**

**Investments**

The Company's investment portfolio primarily consists of investment grade bonds and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

**Loss and Loss Adjustment Expense Reserves**

The Company's Board of Directors appointed Gary S. Traicoff, FCAS, MAAA, of Progressive management to render a Statement of Actuarial Opinion ("Opinion") on the total reserves. Mr. Traicoff prepared an Actuarial Report supporting the Opinion in conjunction with the preparation of the Company's December 31, 2012 Annual Statement.

Thomas Botsko, ACAS, MAAA, the Department's Chief Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the loss and loss adjustment expense ("LAE") reserves. Mr. Botsko concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2012.

**Subsequent Events**

There are no material subsequent events.

## Conclusion

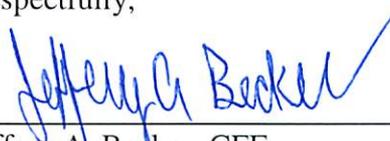
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$ 296,875,460</u>
Liabilities	179,454,676
Surplus as Regards Policyholders	<u>117,420,784</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 296,875,460</u>

## Acknowledgement

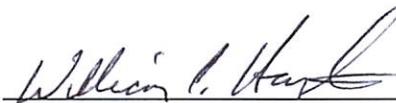
In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad Arif, AES, CISA, CPA; Edward Nagorny, CFE, CPA; Kim Somogyi, CPA; Bryan Radecky, CPA; and Bradley Schroer.

Respectfully,



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Jeffery A. Becker, CFE  
Examiner-In-Charge  
Office of Risk Assessment  
Ohio Department of Insurance



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William C. Harrington, CFE  
Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the ORC, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2012.

Jeffery A. Becker  
Examiner-In-Charge

8/6/13  
Date

William C. Harrington  
Chief Examiner

8/6/13  
Date

State of Ohio

County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 6 day of August, 2013.

Elizabeth Chase  
(Notary Public)  
ELIZABETH CHASE  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named, William C. Harrington, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 6 day of August, 2013.

Elizabeth Chase  
(Notary Public)  
ELIZABETH CHASE  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017  
My Commission Expires

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Franklin  
Ohio

*[Faint, illegible text]*

August

Elizabeth Chase  
ELIZABETH CHASE  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2013

Franklin  
Ohio

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August

Elizabeth Chase  
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