

Report of Examination of

Progressive Casualty 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
3rd 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 Casualty Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company”). The Company is 100% owned by Drive Insurance Holdings, Inc. (“DIHI”) and DIHI 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>Name</u>	<u>Principal Occupation</u>
Karen Marie Bailo	Business Leader Agency Distribution, Commercial Lines – Progressive
Thomas Hudson Hollyer	National Product Development Leader, Personal Lines – Progressive
Kathryn Margaret Lemieux	Customer Relation Management Systems Leader, Personal Lines – Progressive
Daniel Peter Mascaro	Business Leader Claims Legal, Claims Resolution – Progressive
Mark Donald Niehaus	Personal Lines Product Management General Manager- Progressive
David Lloyd Pratt	Business Leader Usage Based Insurance, Personal Line – Progressive
David James Skove	Personal Lines Product Management General Manager – 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>
David James Skove	President
Dane Allen Shrallow	Secretary
Thomas Alfred King	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, Puerto Rico, Canada and the following states:

Alabama	Alaska	Arizona	Arkansas	California
Colorado	Connecticut	Delaware	Florida	Georgia
Hawaii	Idaho	Illinois	Indiana	Iowa
Kansas	Kentucky	Louisiana	Maine	Maryland
Massachusetts	Michigan	Minnesota	Mississippi	Missouri
Montana	Nebraska	Nevada	New Hampshire	New Jersey
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	Wyoming

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

	Direct	Assumed	Ceded	Net	Percent
Private passenger auto liability	\$508,503,900	\$4,678,610,307	\$2,645,489,380	\$2,541,624,827	57.2%
Auto physical damage	262,442,830	2,829,166,602	1,576,746,498	1,514,862,934	34.1%
Commercial auto liability	46,374,155	510,059,488	284,195,656	272,237,987	6.1%
Inland marine	32,599,283	119,407,768	77,523,596	74,483,455	1.7%
Other liability – occurrence	13,989,446	50,872,465	33,921,966	30,939,945	0.7%
Homeowners Multiple Peril	15,168,608	12,944,564	14,354,197	13,758,975	0.3%
All other lines	<u>(1,139,958)</u>	<u>2,346</u>	<u>(1,169,257)</u>	<u>31,645</u>	<u>0.0%</u>
Totals	<u>\$877,938,264</u>	<u>\$8,201,063,540</u>	<u>\$4,632,264,229</u>	<u>\$4,446,737,575</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>\$4,364,296</u>	<u>\$4,095,256</u>	<u>\$3,968,929</u>	<u>\$3,990,149</u>	<u>\$3,980,687</u>
Losses incurred	2,827,322	2,522,714	2,363,173	2,362,179	2,454,362
Loss adjustment expense incurred	451,203	423,953	428,735	435,626	473,337
Other underwriting expense incurred	942,552	911,894	906,080	873,170	868,063
Aggregate write-ins	=	=	<u>(756)</u>	<u>756</u>	=
Total underwriting deductions	<u>4,221,077</u>	<u>3,858,561</u>	<u>3,697,232</u>	<u>3,671,731</u>	<u>3,795,762</u>
Net underwriting gain	\$143,219	\$236,695	\$271,697	\$318,418	\$184,925
Loss ratio	64.8%	61.6%	59.5%	59.2%	61.7%
Loss adjustment expense ratio	<u>10.3%</u>	<u>10.4%</u>	<u>10.8%</u>	<u>10.9%</u>	<u>11.9%</u>
Loss and LAE ratio	75.1%	72.0%	70.3%	70.1%	73.6%
Other underwriting expense ratio	<u>21.2%</u>	<u>22.0%</u>	<u>22.6%</u>	<u>22.1%</u>	<u>22.0%</u>
Combined ratio	<u>96.3%</u>	<u>94.0%</u>	<u>92.9%</u>	<u>92.2%</u>	<u>95.6%</u>

Reinsurance

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

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

Progressive Casualty Insurance Company	49%
Progressive Northern Insurance Company	12%
Progressive Northwestern Insurance Company	12%
Progressive Specialty Insurance Company	7%
Progressive Preferred Insurance Company	6%
Progressive Michigan Insurance Company	4%
Progressive Classic Insurance Company	3%
Progressive American Insurance Company	2%
Progressive Gulf Insurance Company	2%
Progressive Bayside Insurance Company	1%
Progressive Mountain Insurance Company	1%
Progressive Southeastern Insurance Company	1%
Progressive Hawaii Insurance Corp.	<u>0%</u>
	100%

The Agency Pool’s affiliated assumed reinsurance transactions are a result of (1) 90% quota-share reinsurance agreements with three of its non-pooled insurance affiliates, (2) a 100% quota-share reinsurance agreement with Progressive County Mutual Insurance Company, a managed but not owned insurance affiliate, and (3) aggregate stop loss reinsurance agreements with National Continental Insurance Company and Progressive Max Insurance Company, two affiliated insurance companies. The Agency Pool’s ceded premiums consist of “State Plans”. State Plans include (1) amounts ceded to state-provided reinsurance facilities, including the Michigan Catastrophic Claims Association and the North Carolina Reinsurance Facility, and (2) state-mandated involuntary CAIP, for which the Agency Pool retains no loss indemnity risk.

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	\$ 1,357,239,037
Preferred stocks	1,782,335,799
Real estate properties occupied by the company	495,795,377
Real estate properties held for sale	8,634,994
Cash, cash equivalents, and short-term investments	696,999,058
Other invested assets	99,439,620
Receivable for securities	<u>3,242,617</u>
Total cash and invested assets	4,443,686,502
Investment income due and accrued	10,822,154
Uncollected premiums and agents' balances in the course of collection	108,262,440
Deferred premiums, agents' balances and installments booked but deferred and not yet due	566,073,172
Amounts recoverable from reinsurers	41,870,662
Net deferred tax asset	128,009,074
Electronic data processing equipment and software	26,590,346
Aggregate write-ins for other than invested assets	
Equities and deposits in pools and associations	4,031,241
State unearned surcharge recoverable	1,297,484
State tax credits	885,000
Summary of remaining write-ins	<u>606,375</u>
Total admitted assets	<u>\$ 5,332,134,450</u>

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

Liabilities

Losses	\$ 1,520,032,504
Reinsurance payable on paid losses and loss adjustment expenses	238,016,136
Loss adjustment expenses	303,479,486
Commissions payable, contingent commissions and other similar charges	7,252,981
Other expenses	149,640,637
Taxes, licenses and fees	39,182,307
Current federal and foreign income taxes	28,229,761
Unearned premiums	1,323,819,379
Advance premium	5,106,396
Ceded reinsurance premiums payable	(38,134,866)
Amount withheld or retained by company for account of others	7,304,679
Drafts outstanding	56,222,125
Payable to parent, subsidiaries and affiliates	233,459,002
Payable for securities	942,193
Aggregate write-ins for liabilities	
Other liabilities	8,767,701
Escheatable property	297,896
Unearned fee reserve	<u>41,954</u>
Total liabilities	3,883,660,271

Capital and Surplus

Common capital stock	3,000,000
Gross paid in and contributed surplus	811,934,876
Unassigned funds	<u>633,539,303</u>
Surplus as regards policyholders	<u>1,448,474,179</u>
Total liabilities, capital and surplus	<u>\$ 5,332,134,450</u>

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

Premiums earned	<u>\$4,364,295,585</u>
Losses incurred	2,827,321,912
Loss adjustment expenses incurred	451,202,891
Other underwriting expenses incurred	<u>942,552,423</u>
Net underwriting gain	143,218,359
Net investment income earned	332,170,228
Net realized capital gains less capital gains tax	<u>14,172,928</u>
Net investment gain	<u>346,343,156</u>
Net loss from agents' or premium balances charged off	(33,930,140)
Finance and service charges not included in premiums	15,390,820
Aggregate write-ins for miscellaneous income:	
Finance and service charge revenue assumed	17,441,172
Miscellaneous income	3,786,449
Service business revenue	383,817
Interest expense on intercompany balances	<u>(776,574)</u>
Total other income	<u>2,295,544</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>491,857,059</u>
Federal and foreign income taxes incurred	<u>85,136,375</u>
Net income	<u>\$ 406,720,684</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	\$1,359,871	\$1,333,462	\$1,361,684	\$1,214,505	\$1,253,867
Net income	406,721	556,804	279,489	289,893	52,940
Change in net unrealized capital gains or (losses) less capital gains tax	(61,356)	(260,341)	195,289	228,204	(282,598)
Change in net unrealized foreign exchange capital gain	-	-	-	141	3,376
Change in net deferred income tax	20,284	1,733	(49,170)	39,192	69,788
Change in non-admitted assets	1,157	21,119	55,687	(33,022)	(31,585)
Cumulative effect of changes in accounting principles	-	-	-	410	-
Paid in surplus adjustment	17,938	16,105	15,918	73,573	138,041
Dividends to stockholders	(298,000)	(303,000)	(503,000)	(481,400)	-
Aggregate write-ins change in elimination in deferred unrealized gain per SSAP 25	<u>1,860</u>	<u>(6,010)</u>	<u>(22,436)</u>	<u>30,187</u>	<u>10,677</u>
Net change in capital and surplus	<u>88,603</u>	<u>26,409</u>	<u>(28,223)</u>	<u>147,179</u>	<u>(39,362)</u>
Capital and surplus, current year end	<u>\$1,448,474</u>	<u>\$1,359,871</u>	<u>\$1,333,462</u>	<u>\$1,361,684</u>	<u>\$1,214,505</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

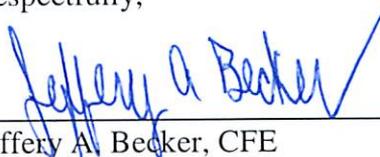
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$ 5,332,134,450</u>
Liabilities	3,883,660,271
Surplus as Regards Policyholders	<u>1,448,474,179</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 5,332,134,450</u>

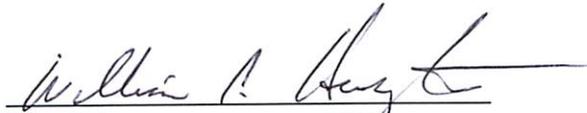
Acknowledgement

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,



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



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