

Report of Examination of

**Mountain Laurel Assurance Company**  
Cleveland, Ohio

As of December 31, 2007

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Columbus, Ohio  
February 12, 2009

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Commissioner  
Chairman, Financial Condition (E) Committee  
National Association of Insurance Commissioners  
Division of Insurance  
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Honorable Mary Jo Hudson  
Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Madams and Sir:

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

**Mountain Laurel Assurance Company**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company”. The examination was conducted at the Company’s home office, located at 6300 Wilson Mills Road, Cleveland, Ohio.

A report of this examination is hereby respectfully submitted.

## **Scope of Examination**

The Pennsylvania Department of Insurance last examined the Company as of December 31, 2002 and the state of domicile was changed to Ohio on October 26, 2005. The current full scope association examination covers the intervening period to and including December 31, 2007.

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.

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

For each year during the period under examination, the Certified Public Accounting firm of PricewaterhouseCoopers, LLP (“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.

The Department’s property and casualty actuary was retained to review the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

## **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.

<b>Name</b>	<b>Principal Occupation</b>
Jeffrey E. Briglia	Progressive Insurance Companies, Customer Relationship Management Business Leader
Patrick K. Callahan	Progressive Insurance Companies, Special Lines General Manager
James R. Haas	Progressive Insurance Companies, Direct Product Development Leader
Christine A. Johnson	Progressive Insurance Companies, Customer Contact/Retention Leader
Scott W. Ziegler	Progressive Insurance Companies, National Product Management Leader

### **Officers**

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

<b>Name</b>	<b>Title</b>
Scott W. Ziegler	President
Jeffrey E. Briglia	Treasurer
Michael R. Uth	Secretary

## **Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the chain of ownership of the insurance companies as of December 31, 2007:

The Progressive Corporation – Ohio  
    Progressive RSC, Inc. – Ohio  
    Pacific Motor Club – California  
    Progressive Capital Management Corp. – New York  
    Progressive Investment Company, Inc. – Delaware  
    Progressive Insurance Agency, Inc. – Ohio  
    Progressive Adjusting Company, Inc. – Ohio  
    Progressive Premium Budget, Inc. – Ohio  
    Wilson Mills Land Company – Ohio  
    Village Transport Corp. – Delaware  
    Progressive Corporate Support, Inc. – Ohio  
    Silver Key Insurance Agency, Inc. – Nevada  
    Garden Sun Insurance Services, Inc. – Hawaii  
    Progny Agency, Inc. – New York  
    Progressive Vehicle Service Company – Ohio  
    Progressive Direct Holdings, Inc. – Delaware  
        Progressive Freedom Insurance Company – New Jersey  
        Progressive Specialty Insurance Agency, Inc. – Ohio  
        Progressive Auto Pro Insurance Agency, Inc. – Florida  
        Progressive Choice Insurance Company – Ohio  
        Mountain Laurel Assurance Company – Ohio  
        Progressive Marathon Insurance Company – Michigan  
        Midland Financial Group, Inc. – Ohio  
            Midland Risk Services, Inc. – Tennessee  
                Progressive Advanced Insurance Company – Ohio  
        Progressive Direct Resources Services Company – Ohio  
        Progressive Select Insurance Company – Florida  
        Progressive Max Insurance Company – Ohio  
        Progressive Paloverde Insurance Company – Indiana  
        Progressive Premier Insurance Company of Illinois – Ohio  
        Progressive Universal Insurance Company – Wisconsin  
        Progressive Direct Insurance Company – Ohio  
            Gadsden, Al, LLC – Ohio  
        Progressive Garden State Insurance Company – New Jersey  
    Progressive Commercial Holdings, Inc. – Delaware  
        National Continental Insurance Company – New York  
        Progressive Express Insurance Company – Florida  
        Commercial Resource Services Company – Ohio  
        Artman and Truckers Casualty Company – Wisconsin  
        United Financial Casualty Company – Ohio

Progressive Commercial Casualty Company – Ohio  
 Drive Insurance Holdings, Inc. – Delaware  
     Progressive West Insurance Company – Ohio  
     Progressive Mountain Insurance Company – Ohio  
     Progressive Preferred Insurance Company – Ohio  
     Progressive Classic Insurance Company – Wisconsin  
     Progressive Bayside Insurance Company – Florida  
     Progressive Hawaii Insurance Corp. – Ohio  
     Progressive Southeastern Insurance Company – Indiana  
     Progressive Northeastern Insurance Company – New York  
     Drive Resource Services Company – Ohio  
     Progressive Michigan Insurance Company – Michigan  
     Progressive Northern Insurance Company – Wisconsin  
     Bayside Underwriters Insurance Agency, Inc. – Florida  
     Progressive Security Insurance Company – Louisiana  
     Progressive Northwestern Insurance Company – Ohio  
     Progressive American Insurance Company – Florida  
     Progressive DLP Corp. – Ohio  
     Progressive Casualty Insurance Company – Ohio  
         Progressive Specialty Insurance Company – Ohio  
             Trussville/Cahaba, AL., LLC - Ohio  
         Progressive Gulf Insurance Company – Ohio  
         PC Investment Company – Delaware  
     Progressive Alliance Insurance Agency, Inc – Washington  
     Drive New Jersey Insurance Company – New Jersey

### **Reinsurance**

The Company's affiliated ceded transactions arose from business written by the Company while participating in a 100% pooling reinsurance agreement with seven of its property-casualty affiliates (the "Direct Pool"). The Company started writing direct automobile business as of November 2005, while prior business written remains with the Direct Pool. The Company has no assumed reinsurance.

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	0.0%
	100%

The Company has policies and procedures in place to comply with Statutory Statement of Accounting Principles 62 and 63.

All contracts contained an insolvency clause, errors and omission clause and an arbitration clause, which meet the guidelines prescribed by the NAIC.

### **Territory and Plan of Operations**

The Company was licensed to transact business in the states of Mississippi, Ohio, Pennsylvania, and Tennessee.

#### **Percentage of Net Business Written by Line**

<u>Description</u>	<u>2007</u>
Private passenger auto liability	57.3%
Auto physical damage	38.3%
All others	4.4%
Total	<u>100.0%</u>

### **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, Surplus and Other Funds  
Statement of Operations  
Statement of Changes in the Capital and Surplus Account

## Statement of Assets, Liabilities, Surplus and Other Funds

**December 31, 2007**

**Admitted assets**

Cash and invested assets:	
Bonds	\$71,951,678
Total cash and invested assets	71,951,678
Investment income due and accrued	953,968
Uncollected premiums and agents' balances course of collection	2,182,248
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,643,197
Amounts recoverable from reinsurers	325,330
Net deferred tax asset	2,690,827
Receivables from parent, subsidiaries and affiliates	1,307,671
Aggregate write-ins for invested assets:	
Net premium tax deposits	845,996
Total admitted assets	\$94,900,915

**December 31, 2007**

**Liabilities, capital and surplus**

**Liabilities:**

Losses	\$21,661,813
Loss adjustment expenses	4,885,191
Commissions payable, contingent commissions and other charges	2,320
Other expenses	62,438
Taxes, licenses and fees	98,534
Current federal and foreign income taxes	1,226,688
Unearned premiums	27,431,287
Advance premiums	525,674
Ceded reinsurance premiums payable	2,704
Drafts outstanding	4,118,246
Aggregate write-ins for liabilities:	
State plan liability	245,934
Escheatable property	46,510
Total liabilities	60,307,339

**Capital and surplus:**

Common capital stock	2,350,000
Gross paid in and contributed surplus	21,150,000
Unassigned funds	11,093,576
Total capital and surplus	34,593,576
Total liabilities, capital and surplus	\$94,900,915

## Statement of Operations

**December 31, 2007**

Premiums earned	\$112,618,504
Losses incurred	62,769,852
Loss expenses incurred	12,459,970
Other underwriting expenses incurred	20,412,798
Underwriting gain	<u>16,975,884</u>
Net investment income earned	3,202,031
Net realized capital gains	<u>174,649</u>
Net investment gain	<u>3,376,680</u>
Net gain (loss) from agents' or premium balances charged off	(1,413,417)
Finance and service charges not included in premiums	1,434,863
Aggregate write-ins for gains and losses in surplus:	
Interest income on intercompany balances	423,053
Miscellaneous other expense	<u>(2,142)</u>
Total other income	<u>442,357</u>
Net income before federal and foreign income taxes	20,794,921
Federal income taxes	<u>5,752,500</u>
Net income	<u>\$15,042,421</u>

## Statement of Changes in the Capital and Surplus Account

(In thousands)

	2003	2004	2005	2006	2007
Capital and surplus December 31, previous year	\$26,417	\$32,578	\$21,774	\$44,417	\$46,226
Net income	12,233	8,587	7,412	3,274	15,042
Net unrealized capital losses	(166)	-0-	-0-	-0-	-0-
Change in net deferred income tax	207	(1,174)	(1,039)	2,406	(491)
Change in nonadmitted assets	(113)	283	(230)	(371)	116
Surplus paid in	-0-	-0-	16,500	-0-	(8,000)
Dividends to stockholders	(6,000)	(18,500)	-0-	(3,500)	(18,300)
Net change in capital and surplus	6,161	(10,804)	22,643	1,809	(11,633)
Capital and surplus December 31, current year	\$32,578	\$21,774	\$44,417	\$46,226	\$34,593

### Summary of Examination Changes

There were no changes made as a result of this examination.

### Notes to Financial Statements

#### Investments

At December 31, 2007, the Company's investments, as measured by statement valuations, were composed of:

<u>Invested Assets</u>	<u>Ratio to Total</u>	
	<u>Investments</u>	<u>Assets</u>
Bonds	<u>100.0%</u>	<u>75.8%</u>
Totals	<u>100.0%</u>	<u>75.8%</u>

The bond portfolio included 56.7% of federal, state, and local government issues and 43.3% special revenue issues. The NAIC Securities Valuation Office (SVO) and/or a NAIC Acceptable Rating Organization (ARO) rated 100% of the bond portfolio as Class 1.

The Company's investments were in compliance with Section 3925.08 of the ORC.

### **Loss and Loss Adjustment Expense Reserves**

The Company's corporate actuary, Allan R. Neis, FCAS, MAAA, certified the total reserves for the years covered by the examination. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2007.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2007.

### **Conclusion**

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2007, and is summarized as follows:

Total Admitted Assets	<u>\$94,900,915</u>
Liabilities	\$60,307,339
Surplus as Regards Policyholders	<u>34,593,576</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$94,900,915</u>

### Acknowledgement

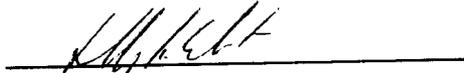
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: William C. Harrington, CFE, CPA (inactive), Chief Examiner; David T. Finkler, CPA; Methuselah E. Nyangoro, CPA; Richard J. Mack, CFE; Vicky L. Hugo, CPA; Louis F. Radecky, CPA; Edward J. Nagorny, CPA, CFE; Mark W. Boston, CPA; C. Cameron Piatt, CPCU, CFE; Bradley J. Schroer; Mary D. Miller, FCAS, MAAA; William H. Ward, CPA, CFE; Floyd D. Meeks, AES; and Dominik R. Ilc, AES.

Respectfully,



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



Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, 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, 2007.

Jeffery A. Becker  
Jeffery A. Becker, CFE  
Examiner-In-Charge

2/12/09  
Date

Jeffrey K. Ebert  
Jeffrey K. Ebert, CFE  
Assistant Chief Examiner

2/12/09  
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/her knowledge and belief.

Subscribed and sworn to before me this 12 day of February, 2009.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2012~~  
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named, Jeffrey K. Ebert, 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/her knowledge and belief.

Subscribed and sworn to before me this 12 day of February, 2009.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2012~~  
My Commission Expires