

Report of Examination of

**Progressive Hawaii Insurance Corp.**  
Cleveland, Ohio

As of December 31, 2007

## Table of Contents

Subject	Page
Salutation .....	1
Description of Company .....	1
Scope of Examination .....	2
Management and Control:	
Board of Directors.....	3
Officers .....	3
Insurance Holding Company System.....	4
Reinsurance.....	6
Territory and Plan of Operations .....	7
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds.....	8
Statement of Operations.....	9
Statement of Changes in the Capital and Surplus Account .....	10
Summary of Examination Changes .....	10
Notes to Financial Statements:	
Investments .....	10
Loss and Loss Adjustment Expense Reserves .....	11
Conclusion .....	11
Acknowledgement .....	12

Columbus, Ohio  
February 12, 2009

Honorable Alfred W. Gross  
Commissioner  
Chairman, Financial Condition (E) Committee  
National Association of Insurance Commissioners  
Division of Insurance  
State of Virginia  
1300 East Main Street  
Richmond, Virginia 23219

Honorable Julie McPeak  
Executive Director of Insurance  
Secretary, Southeastern Zone  
National Association of Insurance Commissioners  
Kentucky Office of Insurance  
PO Box 517  
Frankfort, Kentucky 40602-0517

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

**Progressive Hawaii Insurance Corp.**

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 Department last examined the Company as of December 31, 2002. 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>
Richard R. Crawley	Progressive Insurance Companies, Direct Auto Product R&D
Christopher J. Garson	Progressive Insurance Companies, IT Business Leader
Steven B. Gellen	Progressive Insurance Companies, Customer Relationship Management Manager
Mark D. Niehaus	Progressive Insurance Companies, Personal Lines General Manager
David J. Skove	Progressive Insurance Companies, Personal Lines General Manager

### **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>
David J. Skove	President
Thomas A. King	Treasurer
Dane A. Shrallow	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  
    Progn 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 reinsurance transactions arose from business written by the Company while participating with affiliated property casualty companies ("Agency Pool"). 100% of the underwriting business of each member company, net of external reinsurance, is ceded to the Progressive Casualty Insurance Company, the Agency Pool manager. The combined premiums, losses, and expenses are then retroceded to each Agency Pool member based on pre-determined pooling percentages.

The Company started writing direct automobile business as of November 2005, while prior business written remains with the Agency Pool.

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

Progressive Casualty Insurance Company	49%
Progressive Northwestern Insurance Company	12%
Progressive Northern 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 Southeastern Insurance Company	1%
Progressive Mountain Insurance Company	1%
Progressive Hawaii Insurance Corp.	0%
United Financial Casualty Company	0%
National Continental Insurance Company	0%
	<u>100%</u>

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 Hawaii, Ohio, and Tennessee.

#### Percentage of Net Business Written by Line

<u>Description</u>	<u>2007</u>
Private passenger auto liability	43.2%
Auto physical damage	35.2%
Commercial auto liability	17.9%
All other	3.7%
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	<u>\$63,580,892</u>
Total cash and invested assets	63,580,892
Investment income due and accrued	943,114
Uncollected premiums and agents' balances	2,426,815
Deferred premiums, agents' balances and installments booked but deferred and not yet due	15,087,539
Amounts recoverable from reinsurers	(10,302)
Net deferred tax asset	2,865,512
Receivables from parent, subsidiaries and affiliates	5,212,807
Aggregate write-ins for other than invested assets:	
Net premium tax deposits	<u>313,644</u>
Total admitted assets	<u>\$90,420,021</u>

**December 31, 2007**

**Liabilities, capital and surplus**

Liabilities:

Losses	\$17,978,976
Loss adjustment expenses	4,374,757
Commissions payable	96,499
Other expenses	45,749
Taxes, licenses and fees	42,238
Current federal and foreign income taxes	1,412,378
Unearned premiums	32,422,963
Advance premiums	693,416
Ceded reinsurance premiums payable	14,104
Drafts outstanding	2,612,581
Aggregate write-ins for liabilities:	
State plan liability	25,788
Escheatable property	<u>21,755</u>
Total liabilities	<u>59,741,204</u>

Capital and surplus:

Common capital stock	1,500,000
Gross paid in and contributed surplus	19,400,000
Unassigned funds	<u>9,778,817</u>
Total capital and surplus	<u>30,678,817</u>
Total liabilities, capital and surplus	<u>\$90,420,021</u>

## Statement of Operations

**December 31, 2007**

Premiums earned	\$80,240,790
Losses incurred	43,972,203
Loss expenses incurred	9,285,086
Other underwriting expenses incurred	19,319,196
Net underwriting gain	<u>7,664,305</u>
Net investment income earned	1,968,010
Net realized capital gains	103,939
Net investment gain	<u>2,071,949</u>
Net gain (loss) from agents' or premium balances charged off	(808,088)
Finance and service charges not included in premiums	1,524,417
Aggregate write-ins for miscellaneous income:	
Interest income on intercompany balances	274,937
Miscellaneous other expense	(500)
Total other income	<u>990,766</u>
Net income before federal and foreign income taxes	10,727,020
Federal and foreign income taxes incurred	4,223,475
Net income	<u>\$6,503,545</u>

## Statement of Changes in the Capital and Surplus Account

(In thousands)

	2003	2004	2005	2006	2007
Capital and surplus December 31, previous year	<u>\$15,290</u>	<u>\$11,430</u>	<u>\$11,393</u>	<u>\$17,028</u>	<u>\$25,531</u>
Net income	1,731	3,167	4,379	(991)	6,504
Change in net deferred income tax	502	(992)	(172)	1,186	1,052
Change in nonadmitted assets	(593)	788	(72)	(92)	(208)
Surplus paid in	-0-	-0-	1,500	8,400	-0-
Dividends to stockholders	<u>(5,500)</u>	<u>(3,000)</u>	-0-	-0-	<u>(2,200)</u>
Net change in capital and surplus	<u>(3,860)</u>	<u>(37)</u>	<u>5,635</u>	<u>8,503</u>	<u>5,148</u>
Capital and surplus December 31, current year	<u>\$11,430</u>	<u>\$11,393</u>	<u>\$17,028</u>	<u>\$25,531</u>	<u>\$30,679</u>

### 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>70.3%</u>
Totals	<u>100.0%</u>	<u>70.3%</u>

The bond portfolio included 63.7% of federal, state, and local government issues and 36.3% special revenue. The NAIC Securities Valuation Office (SVO) and/or a NAIC Acceptable Rating Organization (ARO) rated 100.0% of the bond portfolio as Class 1. Cash includes demand deposits.

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:

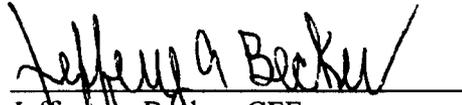
Total Admitted Assets	<u>\$90,420,021</u>
Liabilities	\$59,741,204
Surplus as Regards Policyholders	<u>30,678,817</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$90,420,021</u>

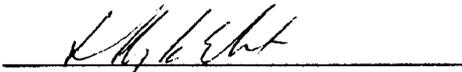
### Acknowledgement

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 (inactive); 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 MY COMMISSION EXPIRES MAY 22, 2012

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 MY COMMISSION EXPIRES MAY 22, 2012