

Report of Examination of

**Progressive West Insurance Company**  
Cleveland, Ohio

As of December 31, 2007

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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 Morris Chavez  
Superintendent of Insurance  
Secretary, Western Zone  
National Association of Insurance Commissioners  
New Mexico Insurance Division  
PO Drawer 1269  
Santa Fe, New Mexico 87504-1269

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 Madam and Sirs:

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

**Progressive West Insurance 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 California Department of Insurance last examined the Company as of December 31, 2002 and the state of domicile was changed to Ohio on August 26, 2003. 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>
Karen M. Barone	Progressive Insurance Companies, Personal Lines General Manager
Christopher J. Garson	Progressive Insurance Companies, Information Technology Business Leader
Thomas H. Hollyer	Progressive Insurance Companies, National Product Development Leader
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>
Mark D. Niehaus	President
Thomas A. King	Treasurer
Peter J. Albert	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  
        Artisan 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 are a result of the 90% quota-share reinsurance agreement with Progressive Casualty Insurance Company. The Company has no assumed reinsurance.

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

The Company was licensed to transact business in the states of Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Ohio, Oregon, Texas, Utah, Washington, and Wyoming.

#### Percentage of Net Business Written by Line

<u>Description</u>	<u>2007</u>
Private passenger auto liability	55.1%
Auto physical damage	44.8%
All other	0.1%
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	\$81,571,443
Total cash and invested assets	<u>81,571,443</u>
Investment income due and accrued	1,439,624
Uncollected premiums and agents' balances in course of collection	10,589,168
Deferred premiums, agents' balances and installments booked but deferred and not yet due	53,106,650
Amounts recoverable from reinsurers	19,317,558
Net deferred tax asset	2,734,278
Total admitted assets	<u>\$168,758,721</u>

**December 31, 2007**

**Liabilities, capital and surplus**

Liabilities:

Losses	\$8,347,394
Loss adjustment expenses	2,924,880
Commissions payable, contingent commissions and other charges	638,670
Other expenses	82,615
Taxes, licenses and fees	2,304,323
Current federal and foreign income taxes	213,930
Unearned premiums	9,127,320
Advance premiums	1,466,044
Ceded reinsurance premiums payable	80,346,826
Drafts outstanding	17,857,948
Payable to parent, subsidiaries and affiliates	1,392,692
Aggregate write-ins for liabilities:	
Escheatable property	266,868
State plan liability	105,129
Total liabilities	<u>125,074,639</u>

Capital and surplus:

Common capital stock	2,610,000
Gross paid in and contributed surplus	12,000,000
Unassigned funds	29,074,082
Total capital and surplus	<u>43,684,082</u>
Total liabilities, capital and surplus	<u>\$168,758,721</u>

## Statement of Operations

**December 31, 2007**

Premiums earned	\$38,879,308
Losses incurred	24,184,750
Loss expenses incurred	5,355,524
Other underwriting expenses incurred	8,338,955
Underwriting gain	<u>1,000,079</u>
Net investment income earned	3,327,256
Net realized capital losses	<u>(124,836)</u>
Net investment gain	<u>3,202,420</u>
Net gain (loss) from agents' or premium balances charged off	(689,678)
Finance and service charges not included in premiums	9,239,579
Aggregate write-ins for miscellaneous income:	
Interest income on intercompany balances	965,765
Miscellaneous other expense	(7,123)
Finance and service charge revenue ceded	<u>(8,315,622)</u>
Total other income	<u>1,192,921</u>
Net income before federal and foreign income taxes	5,395,420
Federal income taxes	<u>1,393,855</u>
Net income	<u>\$4,001,565</u>

## Statement of Changes in the Capital and Surplus Account

(In thousands)

	2003	2004	2005	2006	2007
Capital and surplus December 31, previous year	\$21,070	\$32,671	\$37,000	\$38,469	\$42,933
Net income	1,712	5,645	4,363	5,264	4,002
Change in net deferred income tax	1,037	(850)	668	821	99
Change in non-admitted assets	(1,148)	534	(1,062)	(1,621)	(350)
Surplus paid in	10,000	-0-	-0-	-0-	-0-
Dividends to stockholders	-0-	(1,000)	(2,500)	-0-	(3,000)
Net change in capital and surplus	11,601	4,329	1,469	4,464	751
Capital and surplus December 31, current year	\$32,671	\$37,000	\$38,469	\$42,933	\$43,684

### 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>48.3%</u>
Totals	<u>100.0%</u>	<u>48.3%</u>

The bond portfolio included 11.6% of federal, state, and local government issues, 40.0% of special revenue issues, and 48.4% of industrial and miscellaneous issues. The NAIC Securities Valuation Office (SVO) and/or a NAIC Acceptable Rating Organization (ARO) rated 85.3% of the bond portfolio as Class 1 and 14.7% as Class 2.

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:

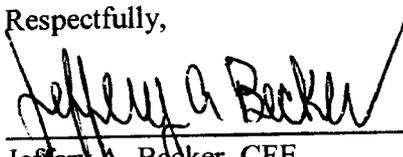
Total Admitted Assets	<u>\$168,758,721</u>
Liabilities	\$125,074,639
Surplus as Regards Policyholders	<u>43,684,082</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$168,758,721</u>

### 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,



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



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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