

Report of Examination of

**Progressive Express 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 Express Insurance Company**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company”). The Company is 100% owned by Progressive Commercial Holdings, Inc. (“PCHI”) and PCHI 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 State of Florida 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 Company was redomesticated from Florida to Ohio effective August 30, 2010.

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.

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Patricia Onody Bemer	Human Resources Business Leader, Commercial Lines – Progressive
Michael William Bissler	Senior Controller, Commercial Lines - Progressive
Jeanette Louise Hisek	Director Regional Marketing, Commercial Lines – Progressive
William Raymond Kampf	Commercial Auto Marketing General Manager, Commercial Lines – Progressive
Michael John Miller	Director Regional Marketing, Commercial 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>
William Raymond Kampf	President
Patricia Mitchell Corwin	Secretary
Michael William Bissler	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 following states:

California      Florida      Georgia      Ohio

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>
Commercial auto liability	\$ 206,190,650	\$ -	\$ 185,575,059	\$ 20,615,591	59.5%
Auto physical damage	68,401,046	-	61,560,941	6,840,105	19.7%
Private passenger auto liability	44,703,489	-	40,233,140	4,470,349	12.9%
Inland marine	21,640,642	-	19,476,578	2,164,064	6.2%
Other liability – occurrence	<u>5,468,822</u>	<u>-</u>	<u>4,921,939</u>	<u>546,883</u>	<u>1.6%</u>
Totals	<u>\$ 346,404,649</u>	<u>\$ -</u>	<u>\$ 311,767,657</u>	<u>\$ 34,636,992</u>	100.0%

## Significant Operating Results

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

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Premiums earned	<u>\$ 32,750</u>	<u>\$ 31,282</u>	<u>\$ 35,650</u>	<u>\$ 42,631</u>	<u>\$ 50,696</u>
Losses incurred	19,431	15,812	20,843	25,554	31,650
Loss adjustment expenses incurred	3,766	3,138	3,587	3,959	5,299
Other underwriting expenses incurred	<u>6,638</u>	<u>6,030</u>	<u>6,400</u>	<u>7,433</u>	<u>8,886</u>
Total underwriting deductions	<u>29,835</u>	<u>24,980</u>	<u>30,830</u>	<u>36,946</u>	<u>45,835</u>
Net underwriting gain	<u>\$ 2,915</u>	<u>\$ 6,302</u>	<u>\$ 4,820</u>	<u>\$ 5,685</u>	<u>\$ 4,861</u>
Loss ratio	59.3%	50.5%	58.5%	59.9%	62.4%
Loss adjustment expense ratio	<u>11.5%</u>	<u>10.0%</u>	<u>10.1%</u>	<u>9.3%</u>	<u>10.5%</u>
Loss and LAE ratio	70.8%	60.5%	68.6%	69.2%	72.9%
Other underwriting expense ratio	<u>19.2%</u>	<u>19.3%</u>	<u>19.1%</u>	<u>18.9%</u>	<u>19.0%</u>
Combined ratio	<u>90.0%</u>	<u>79.8%</u>	<u>87.7%</u>	<u>88.1%</u>	<u>91.9%</u>

### Reinsurance

The Company's affiliated ceded reinsurance transactions are a result of the 90% quota-share reinsurance agreement with United Financial Casualty Company.

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 Company has no assumed reinsurance.

### 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>\$ 21,126,464</u>
Total cash and invested assets	21,126,464
Investment income due and accrued	92,303
Uncollected premiums and agents' balances in the course of collection	11,688,951
Deferred premiums, agents' balances and installments booked but deferred and not yet due	81,130,786
Amounts recoverable from reinsurers	52,995,932
Net deferred tax asset	2,227,433
Aggregate write-ins for other than invested assets	
Florida hurricane catastrophe fund assets	<u>1,939,866</u>
Total admitted assets	<u>\$ 171,201,735</u>

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

**Liabilities**

Losses	18,102,773
Loss adjustment expenses	3,838,825
Commissions payable, contingent commissions and other similar charges	407,558
Other expenses	41,414
Taxes, licenses and fees	2,129,403
Current federal and foreign income taxes	265,142
Unearned premiums	15,622,798
Advance premium	3,021,177
Ceded reinsurance premiums payable	60,333,139
Drafts outstanding	16,304,468
Payable to parent, subsidiaries and affiliates	2,589,831
Aggregate write-ins for liabilities	
Florida hurricane catastrophe fund liabilities	2,973,406
State plan liability	992,508
Premium refund liability	328,096
Escheatable property	<u>26,356</u>
Total liabilities	126,976,894

**Capital and Surplus**

Common capital stock	1,000,000
Gross paid in and contributed surplus	39,626,084
Unassigned funds	<u>3,598,757</u>
Surplus as regards policyholders	<u>44,224,841</u>
Total liabilities, capital and surplus	<u>\$ 171,201,735</u>

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

Premiums earned	<u>\$ 32,749,878</u>
Losses incurred	19,431,253
Loss adjustment expenses incurred	3,765,722
Other underwriting expenses incurred	<u>6,638,014</u>
Net underwriting gain	2,914,889
Net investment income earned	455,334
Net realized capital gains less capital gains tax	<u>22,271</u>
Net investment gain	<u>477,605</u>
Net loss from agents' or premium balances charged off	(186,414)
Finance and service charges not included in premiums	2,827,149
Aggregate write-ins for miscellaneous income:	
Miscellaneous other income	58,188
Interest income on intercompany balances	18,791
Interest expense on premium refunds	(39,398)
Finance and service charge revenue ceded	<u>(2,544,434)</u>
Total other income	<u>133,882</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>3,526,376</u>
Federal and foreign income taxes incurred	<u>1,404,479</u>
Net income	<u>\$ 2,121,897</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	\$ 40,477	\$ 45,266	\$ 53,280	\$ 73,675	\$ 91,691
Net income	2,122	4,838	3,367	6,610	5,195
Change in net deferred income tax	(231)	105	(974)	(298)	(342)
Change in non-admitted assets	239	(32)	1,093	(7)	(5)
Cumulative effect of changes in accounting principles	218	-	-	-	-
Paid in surplus adjustment	1,400	(4,000)	(7,000)	(22,700)	(8,964)
Dividends to stockholders	-	(5,700)	(4,500)	(4,000)	(13,900)
Net change in capital and surplus	<u>3,748</u>	<u>(4,789)</u>	<u>(8,014)</u>	<u>(20,395)</u>	<u>(18,016)</u>
Capital and surplus, current year end	<u>\$ 44,225</u>	<u>\$ 40,477</u>	<u>\$ 45,266</u>	<u>\$ 53,280</u>	<u>\$ 73,675</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

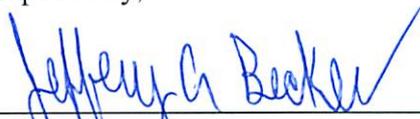
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$ 171,201,735</u>
Liabilities	126,976,894
Surplus as Regards Policyholders	<u>44,224,841</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 171,201,735</u>

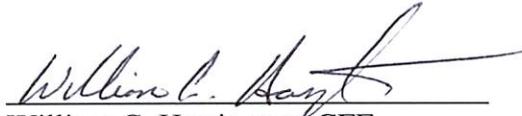
## Acknowledgement

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 Oh: O

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 Oh: O

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

10/10

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Ohio  
Franklin

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ELIZABETH CHASE  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017

Ohio  
Franklin

*[Faint, illegible text]*

*[Handwritten signature]*

ELIZABETH CHASE  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2017