

Report of Examination of

Progressive Premier Insurance Company Of Illinois
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 Premier Insurance Company Of Illinois

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company”). The Company is 100% owned by Progressive Direct Holdings, Inc. (“PDHI”) and PDHI 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>
Toby Kramer Alfred	Customer Relation Management Business Leader, Personal Lines - Progressive
Steven Anthony Broz	Project Management Office Leader, Information Technology – Progressive
James Russell Haas	Process Business Leader, Claims Resolution – Progressive
Caroline Mae Koran	Business Leader Customer Care Process, Personal Lines – Progressive
Scott Wesley Ziegler	National Product Management Leader, Personal 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>
Toby Kramer Alfred	President
Michael Robert Uth	Secretary
Daniel Joseph Witalec	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 the following states:

Georgia	Hawaii	Idaho	Illinois	Maine
Minnesota	North Carolina	Ohio	Oklahoma	Rhode Island
Virginia				

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

	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>	<u>Percent</u>
Private passenger auto liability	\$ 161,268,850	\$ 71,629,165	\$161,268,850	\$ 71,629,165	65.4%
Auto physical damage	101,644,556	35,742,583	101,644,556	35,742,583	32.6%
Inland marine	1,559,942	1,139,648	1,559,942	1,139,648	1.0%
Commercial auto liability	2,466,698	559,494	2,466,698	559,494	0.5%
Other liability – occurrence	717,855	446,351	717,855	446,351	0.4%
All other lines	_____ -	<u>75,794</u>	_____ -	<u>75,794</u>	<u>0.1%</u>
Totals	<u>\$ 267,657,901</u>	<u>\$109,593,035</u>	<u>\$267,657,901</u>	<u>\$109,593,035</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>\$108,155</u>	<u>\$100,094</u>	<u>\$ 92,376</u>	<u>\$ 83,228</u>	<u>\$74,052</u>
Losses incurred	68,545	60,620	56,604	51,039	45,214
Loss adjustment expenses incurred	11,729	11,165	11,082	9,978	9,377
Other underwriting expenses incurred	23,273	23,090	20,855	17,357	15,397
Aggregate write-ins	—	—	(16)	16	—
Total underwriting deductions	<u>103,547</u>	<u>94,875</u>	<u>88,525</u>	<u>78,390</u>	<u>69,988</u>
Net underwriting gain	\$ 4,608	\$ 5,219	\$ 3,851	\$ 4,838	\$ 4,064
	-				
Loss ratio	63.4%	60.6%	61.3%	61.3%	61.1%
Loss adjustment expense ratio	<u>10.8%</u>	<u>11.2%</u>	<u>12.0%</u>	<u>12.0%</u>	<u>12.7%</u>
Loss and LAE ratio	74.2%	71.8%	73.3%	73.3%	73.8%
Other underwriting expense ratio	<u>21.2%</u>	<u>22.6%</u>	<u>22.0%</u>	<u>20.3%</u>	<u>20.4%</u>
Combined ratio	<u>95.4%</u>	<u>94.4%</u>	<u>95.3%</u>	<u>93.6%</u>	<u>94.2%</u>

Reinsurance

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

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	<u>0.0%</u>
	100.0%

The Direct Pool's affiliated assumed reinsurance transactions are a result of 90% quota-share reinsurance agreements with four of its non-pooled insurance affiliates. The Direct Pool's non-affiliated ceded reinsurance transactions primarily arise from its participation in voluntary state-provided reinsurance facilities.

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	<u>\$ 107,286,361</u>
Total cash and invested assets	107,286,361
Investment income due and accrued	1,403,493
Uncollected premiums and agents' balances in the course of collection	7,223,243
Deferred premiums, agents' balances and installments booked but deferred and not yet due	43,129,202
Amounts recoverable from reinsurers	3,029,450
Net deferred tax asset	4,179,679
Aggregate write-ins for other than invested assets	
State tax credits	493,920
State unearned surcharge recoverable	<u>291,814</u>
Total admitted assets	<u>\$ 167,037,162</u>

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

Liabilities

Losses	\$ 36,052,287
Reinsurance payable on paid losses and loss adjustment expenses	604,696
Loss adjustment expenses	7,512,914
Commissions payable, contingent commissions and other similar charges	1,018
Other expenses	325,930
Taxes, licenses and fees	903,159
Current federal and foreign income taxes	392,423
Unearned premiums	28,545,039
Advance premium	1,119,440
Stockholder dividends declared and unpaid	2,000,000
Ceded reinsurance premiums payable	3,212,835
Drafts outstanding	10,057,299
Payable to parent, subsidiaries and affiliates	14,488,230
Aggregate write-ins for liabilities	
Receivable factoring liability	18,900,000
Miscellaneous other liabilities	466,632
State plan liability	200,579
Escheatable property	<u>2,053</u>
Total liabilities	124,784,534

Capital and Surplus

Common capital stock	2,500,400
Gross paid in and contributed surplus	12,249,600
Unassigned funds	<u>27,502,628</u>
Surplus as regards policyholders	<u>42,252,628</u>
Total liabilities, capital and surplus	<u>\$ 167,037,162</u>

Statement of Income
As of December 31, 2012

Premiums earned	<u>\$ 108,154,736</u>
Losses incurred	68,544,661
Loss adjustment expenses incurred	11,729,292
Other underwriting expenses incurred	<u>23,273,260</u>
Net underwriting gain	4,607,523
Net investment income earned	1,590,230
Net realized capital gains less capital gains tax	<u>1,355,539</u>
Net investment gain	<u>2,945,769</u>
Net loss from agents' or premium balances charged off	(4,511,850)
Finance and service charges not included in premiums	4,729,684
Aggregate write-ins for miscellaneous income:	
Interest income on intercompany balances	15,187
Miscellaneous other income	14,310
Loss on receivable factoring	<u>(5,620)</u>
Total other income	<u>241,711</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>7,795,003</u>
Federal and foreign income taxes incurred	<u>1,964,543</u>
Net income	<u>\$ 5,830,460</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	\$ 38,355	\$ 36,672	\$ 32,591	\$ 28,457	\$ 23,657
Net income	5,830	5,255	3,900	4,946	4,478
Change in net deferred income tax	415	350	251	341	498
Change in non-admitted assets	(628)	(422)	(69)	(153)	(1,176)
Cumulative effect of changes in accounting principles	279	-	-	-	-
Paid in surplus adjustment	-	-	-	-	1,000
Dividends to stockholders	(2,000)	(3,500)	-	(1,000)	-
Net change in capital and surplus	<u>3,896</u>	<u>1,683</u>	<u>4,082</u>	<u>4,134</u>	<u>4,800</u>
Capital and surplus, current year end	<u>\$ 42,251</u>	<u>\$ 38,355</u>	<u>\$ 36,673</u>	<u>\$ 32,591</u>	<u>\$ 28,457</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

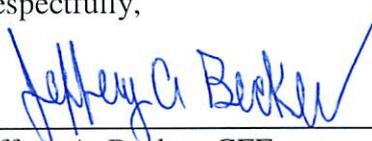
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$ 167,037,162</u>
Liabilities	124,784,534
Surplus as Regards Policyholders	<u>42,252,628</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 167,037,162</u>

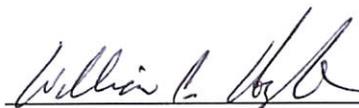
Acknowledgement

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