

Report of Examination of

**United Financial Casualty Company**  
Cleveland, Ohio

As of December 31, 2007

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Columbus, Ohio  
February 12, 2009

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Chairman, Financial Condition (E) Committee  
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State of Virginia  
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Secretary, Midwestern Zone  
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Honorable Thomas R. Sullivan  
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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 Sirs:

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

**United Financial Casualty 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 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>
Patricia O. Bemmer	Progressive Insurance Companies, HR Business Leader II
William R. Kampf	Progressive Insurance Companies, Commercial Auto Marketing General Manager
Stephen D. Peterson	Progressive Insurance Companies, Audit Business Leader
Brian A. Silva	Progressive Insurance Companies, Director of Special Projects
Dale A. Willis	Progressive Insurance Companies, Marketing Process 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>
Stephen D. Peterson	President
Brian A. Silva	Treasurer
Patricia M. Corwin	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 is a party to various reinsurance agreements including a pooling agreement 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's ceded reinsurance agreements are in run-off.

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%
	<hr/>
	100%

The Company's affiliated assumed reinsurance transactions are a result of a 90% quota-share reinsurance agreement with Progressive Express Insurance Company and Artisan and Truckers Casualty Company. Reinsurance agreements do not relieve the Company of its obligation to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

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 all states, the District of Columbia, and Puerto Rico.

#### Percentage of Net Business Written by Line

<u>Description</u>	<u>2007</u>
Commercial auto liability	56.7%
Auto physical damage	28.2%
Private passenger auto liability	10.5%
All other	4.6%
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	\$1,018,526,593
Preferred Stocks	117,548,691
Common Stocks:	
Affiliates	13,650,866
Non-Affiliates	203,923,153
Cash and short-term investments	357,390
Receivable for securities	825,660
Total cash and invested assets	<u>1,354,832,353</u>
Investment income due and accrued	15,618,782
Uncollected premiums and agents' balances	41,641,807
Deferred premiums, agents' balances and installments booked but deferred and not yet due	250,154,279
Accrued retrospective premiums	41,302
Amounts recoverable from reinsurers	(2,172)
Net deferred tax asset	51,155,088
Receivables from parent, subsidiaries and affiliates	49,921,745
Aggregate write-ins for other than invested assets:	
State unearned surcharge recoverable	502,242
State tax credits	135,625
Total admitted assets	<u>\$1,764,001,051</u>

**December 31, 2007**

**Liabilities, capital and surplus**

Liabilities:

Losses	\$521,717,066
Reinsurance payable on paid losses and loss adjustment expenses	116,103,282
Loss adjustment expenses	118,564,330
Commissions payable	994,408
Other expenses	434,126
Taxes, licenses and fees	9,522,842
Current federal and foreign income taxes	8,081,561
Unearned premiums	542,620,819
Advance premiums	5,733,094
Ceded reinsurance premiums payable	531
Amounts withheld or retained by company for account of others	765
Drafts outstanding	18,986,971
Aggregate write-ins for liabilities:	
State plan liability	4,537,347
Other liabilities	588,522
Escheatable property	40,027
Total liabilities	<u>1,347,925,691</u>
Capital and surplus:	
Common capital stock	3,008,000
Gross paid in and contributed surplus	190,370,773
Unassigned funds	222,696,587
Total capital and surplus	<u>416,075,360</u>
Total liabilities, capital and surplus	<u>\$1,764,001,051</u>

## Statement of Operations

**December 31, 2007**

Premiums earned	\$1,289,473,122
Losses incurred	782,105,259
Loss expenses incurred	140,040,131
Other underwriting expenses incurred	256,276,016
Net underwriting gain	<u>111,051,716</u>
Net investment income earned	54,968,434
Net realized capital gains	964,556
Net investment gain	<u>55,932,990</u>
Net gain (loss) from agents' or premium balances charged off	(8,072,186)
Finance and service charges not included in premiums	6,470,652
Aggregate write-ins for miscellaneous income:	
Finance & service charge revenue assumed	4,693,331
Interest income on intercompany balances	3,783,991
Miscellaneous other income	56,822
Total other income	<u>6,932,610</u>
Net income before federal and foreign income taxes	173,917,316
Federal and foreign income taxes incurred	55,525,186
Net income	<u>\$118,392,130</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>\$53,220</u>	<u>\$55,427</u>	<u>\$56,741</u>	<u>\$308,473</u>	<u>\$426,371</u>
Net income	14,702	16,532	37,771	97,279	118,392
Net unrealized capital gains (losses)	-0-	-0-	-0-	1,844	3,551
Change in net deferred income tax	(69)	(2,042)	29,136	19,882	1,466
Change in nonadmitted assets	(670)	1,824	(5,639)	(1,138)	3,055
Surplus paid in	244	-0-	190,464	31	(39,760)
Dividends to stockholders	<u>(12,000)</u>	<u>(15,000)</u>	<u>-0-</u>	<u>-0-</u>	<u>(97,000)</u>
Net change in capital and surplus	<u>2,207</u>	<u>1,314</u>	<u>251,732</u>	<u>117,898</u>	<u>(10,296)</u>
Capital and surplus December 31, current year	<u>\$55,427</u>	<u>\$56,741</u>	<u>\$308,473</u>	<u>\$426,371</u>	<u>\$416,075</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	75.2%	57.7%
Common stocks	16.0%	12.3%
Preferred stocks	8.7%	6.7%
All other	0.1%	0.1%
Totals	<u>100.0%</u>	<u>76.8%</u>

The bond portfolio included 13.4% of federal, state, and local government issues, 37.9% special revenue and 48.7% industrial and miscellaneous. The NAIC Securities Valuation Office (SVO) and/or a NAIC Acceptable Rating Organization (ARO) rated 86.4 % of the bond portfolio as Class 1, 11.7% as Class 2, 0.6% as Class 3 and 1.3% as Class 6. 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.

### **Subsequent Event**

During 2008, results included write-downs of securities determined to have had an other-than-temporary decline in fair value of \$110,239,939 related to the financial sector. The Company properly accounted for these transactions.

### **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>\$1,764,001,051</u>
Liabilities	\$1,347,925,691
Surplus as Regards Policyholders	<u>416,075,360</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$1,764,001,051</u>

### Acknowledgement

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

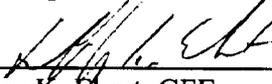
In addition to the undersigned, the following representatives of the Department participated in this examination: William C. Harrington, CFE, CPA (inactive), Chief Examiner, David T. Finkler, CPA; Methuselah E. Nyangoro, CPA; Richard J. Mack, CFE; Vicky L. Hugo, CPA; Louis F. Radecky, CPA (inactive); 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,



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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 name, 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