

Report of Examination of

United Financial Casualty 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
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

United Financial Casualty 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 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>
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
Kevin Patrick Maher	Business Leader PCA Operations, 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>
Michael William Bissler	President
Patricia Mitchell Corwin	Secretary
Kevin Patrick Maher	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 District of Columbia and the following states:

Alabama	Alaska	Arizona	Arkansas	California
Colorado	Connecticut	Delaware	Florida	Georgia
Hawaii	Idaho	Illinois	Indiana	Iowa
Kansas	Kentucky	Louisiana	Maine	Maryland
Massachusetts	Michigan	Minnesota	Mississippi	Missouri
Montana	Nebraska	Nevada	New Hampshire	New Jersey
New Mexico	New York	North Carolina	North Dakota	Ohio
Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina
South Dakota	Tennessee	Texas	Utah	Vermont
Virginia	Washington	West Virginia	Wisconsin	Wyoming

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

	Direct	Assumed	Ceded	Net	Percent
Commercial auto liability	\$ 306,141,067	\$ 273,623,177	\$ 122,611	\$ 579,641,633	49.4%
Auto physical damage	150,605,069	167,780,423	-	318,385,492	27.1%
Private passenger auto liability	63,252,569	168,704,809	-	231,957,378	19.8%
Inland marine	8,415,544	26,704,308	-	35,119,852	3.0%
Other liability – occurrence	1,508,474	6,508,874	-	8,017,348	0.7%
All other lines	<u>52,475</u>	<u>-</u>	<u>-</u>	<u>52,475</u>	<u>0.0%</u>
Totals	<u>\$ 529,975,198</u>	<u>\$ 643,321,591</u>	<u>\$ 122,611</u>	<u>\$ 1,173,174,178</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	\$ 1,067,355	\$ 962,166	\$ 1,040,239	\$ 1,141,339	\$ 1,221,951
Losses incurred	669,104	525,446	560,263	618,999	742,243
Loss adjustment expenses incurred	108,061	91,113	96,693	109,685	143,104
Other underwriting expenses incurred	<u>243,484</u>	<u>206,181</u>	<u>215,260</u>	<u>225,475</u>	<u>247,340</u>
Total underwriting deductions	<u>1,020,649</u>	<u>822,740</u>	<u>872,216</u>	<u>954,159</u>	<u>1,132,687</u>
Net underwriting gain	\$ 46,706	\$ 139,426	\$ 168,023	\$ 187,180	\$ 89,264
Loss ratio	62.7%	54.6%	53.9%	54.2%	60.7%
Loss adjustment expense ratio	<u>10.1%</u>	<u>9.5%</u>	<u>9.3%</u>	<u>9.6%</u>	<u>11.7%</u>
Loss and LAE ratio	72.8%	64.1%	63.2%	63.8%	72.4%
Other underwriting expense ratio	<u>20.8%</u>	<u>21.1%</u>	<u>21.6%</u>	<u>20.7%</u>	<u>20.9%</u>
Combined ratio	<u>93.6%</u>	<u>85.2%</u>	<u>84.8%</u>	<u>84.5%</u>	<u>93.3%</u>

Reinsurance

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 obligations 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.

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.

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	\$ 987,277,249
Preferred stocks	64,805,500
Common stocks	170,265,523
Cash equivalents and short-term investments	108,575,315
Receivables for securities	<u>1,785</u>
Total cash and invested assets	1,330,925,372
Investment income due and accrued	6,830,966
Uncollected premiums and agents' balances in the course of collection	44,662,408
Deferred premiums, agents' balances and installments booked but deferred and not yet due	327,159,853
Accrued retrospective premiums	1,888
Net deferred tax asset	41,550,965
Receivables from parent, subsidiaries and affiliates	64,264,386
Aggregate write-ins for other than invested assets	
State unearned surcharge recoverable	<u>484,415</u>
Total admitted assets	<u>\$ 1,815,880,253</u>

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

Liabilities

Losses	\$ 613,829,600
Reinsurance payable on paid losses and loss adjustment expenses	110,404,096
Loss adjustment expenses	116,942,281
Commissions payable, contingent commissions and other similar charges	337,063
Other expenses	93,680
Taxes, licenses and fees	4,453,841
Current federal and foreign income taxes	14,349,678
Unearned premiums	527,020,908
Advance premium	5,342,015
Ceded reinsurance premiums payable	9,729
Drafts outstanding	25,413,743
Aggregate write-ins for liabilities	
State plan liability	5,758,516
Other liabilities	438,404
Escheatable property	<u>140,631</u>
Total liabilities	1,424,534,184

Capital and Surplus

Common capital stock	3,008,000
Gross paid in and contributed surplus	221,373,432
Unassigned funds	<u>166,964,637</u>
Surplus as regards policyholders	<u>391,346,069</u>
Total liabilities, capital and surplus	<u>\$ 1,815,880,253</u>

Statement of Income
As of December 31, 2012

Premiums earned	<u>\$ 1,067,355,017</u>
Losses incurred	669,104,439
Loss adjustment expenses incurred	108,060,653
Other underwriting expenses incurred	<u>243,484,314</u>
Net underwriting gain	46,705,611
Net investment income earned	39,256,383
Net realized capital gains less capital gains tax	<u>19,537,482</u>
Net investment gain	<u>58,793,865</u>
Net loss from agents' or premium balances charged off	(7,033,586)
Finance and service charges not included in premiums	4,955,147
Aggregate write-ins for miscellaneous income:	
Finance & service charge revenue assumed	7,399,844
Miscellaneous other income	37,491
Interest income on intercompany balances	34,243
Interest expense on premium refunds	<u>(63,825)</u>
Total other income	<u>5,329,314</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>110,828,790</u>
Federal and foreign income taxes incurred	<u>36,855,814</u>
Net income	<u>\$ 73,972,976</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	\$ 390,266	\$ 406,287	\$ 405,405	\$ 351,141	\$ 416,075
Net income	73,973	134,165	166,606	183,784	(978)
Change in net unrealized capital gains or (losses)	15,813	(4,011)	12,675	27,366	(3,962)
Change in net deferred income tax	6,651	(2,021)	(17,319)	(5,589)	34,037
Change in non-admitted assets	(357)	314	28,748	16,721	(49,130)
Cumulative effect of changes in accounting principles	-	-	-	2,384	-
Paid in surplus adjustment	-	-	-	31,000	3
Dividends to stockholders	(95,000)	(145,000)	(185,827)	(210,000)	(45,000)
Aggregate write-ins for miscellaneous income:					
Reversal/addition of admitted deferred tax asset per SSAP 10R	-	532	(3,916)	8,608	-
Change in elimination in deferred unrealized gain per SSAP 25	-	-	(85)	(10)	96
Net change in capital and surplus	<u>1,080</u>	<u>(16,021)</u>	<u>882</u>	<u>54,264</u>	<u>(64,934)</u>
Capital and surplus, current year end	<u>\$ 391,346</u>	<u>\$ 390,266</u>	<u>\$ 406,287</u>	<u>\$ 405,405</u>	<u>\$ 351,141</u>

Notes to Financial Statements

Investments

The Company's investment portfolio primarily consists of investment grade bonds and common stocks 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>\$ 1,815,880,253</u>
Liabilities	1,424,534,184
Surplus as Regards Policyholders	<u>391,346,069</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 1,815,880,253</u>

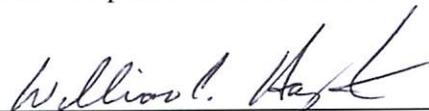
Acknowledgement

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 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 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 Ohio

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

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