Report

of the

Examination of

Progressive Northern Insurance Company

Cleveland, Ohio

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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February 27, 2014

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

PROGRESSIVE NORTHERN INSURANCE COMPANY
Cleveland, Ohio

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Progressive Northern Insurance Company (the Company or PNIC) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the Company including corporate governance, the identification and assessment of inherent risks within the Company, and the evaluation of system controls and procedures used by the Company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the Company was conducted concurrently with the examination of Progressive Casualty Insurance Company and affiliates. Representatives of the Ohio Department of Insurance acted in the capacity as the lead state for the coordinated exams. Work performed by the Ohio Department of Insurance was reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the Company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the Company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The Company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Actuarial Review by the Ohio Insurance Department

Since its inception, the Company has been a participant in a comprehensive reinsurance pooling agreement with Progressive Casualty Insurance Company and certain of its property and casualty affiliates. In consequence, the Company's net loss and loss adjustment expense reserves are the product of the reserves of the Progressive insurance companies' reinsurance pool and the Company's participation percentage in the pool.

An actuary on the staff of the Ohio Department of Insurance reviewed the adequacy of the Company's loss reserves and loss adjustment expense reserves, as a function of its participation in the pool. The results of his work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

PNIC, a stock property and casualty company operating under ch. 611, Wis. Stat, was incorporated in the state of Wisconsin on August 19, 1980, and commenced business on March 8, 1981. The Progressive Corporation was the parent and sole shareholder of the Company until it transferred ownership to another affiliate, Drive Insurance Holdings, Inc., on January 1, 2004. On December 15, 2009, Progressive Northeastern Insurance Company, which was domiciled in New York, was merged into the Company with Progressive Northern Insurance Company as the surviving entity.

In 2012, the Company wrote direct premium in the following states:

Iowa	$ 153,258,007	12.1%
Illinois	152,673,981	12.0
Oklahoma	125,248,729	9.9
South Carolina	123,671,091	9.7
New York	106,560,805	8.4
Nevada	88,981,316	7.0
Nebraska	87,508,635	6.9
New Hampshire	50,677,664	4.0
Pennsylvania	47,478,745	3.7
New Mexico	46,335,680	3.6
South Dakota	45,641,506	3.6
All others	242,258,741	19.1
Total	$1,270,294,900	100.0%

The Company is licensed in the District of Columbia and all states except Alabama, Arkansas, California, Florida, Massachusetts, Michigan, Missouri, New Jersey, North Dakota, Tennessee and Texas. The Company is also a qualified or accredited reinsurer in the state of Michigan.

The major products marketed by the Company include private passenger auto liability, auto physical damage, commercial auto liability, inland marine, other liability – occurrence, and homeowner’s multiple peril.

While PNIC has some employees, all operations are conducted by employees of Progressive subsidiaries in accordance with their business practices and internal controls. Virtually all expenses are initially paid by Progressive Casualty Insurance Company. Expenses other than commissions, taxes, licenses and fees are then allocated on the basis of specific identification, utilization estimates developed from such criteria as premium or claim volume, and time studies, in accordance with the Progressive reinsurance pooling agreement. Tax allocations are established in accordance with a written federal income tax allocation agreement. Intercompany balances with affiliates are created in the ordinary course of business, with settlements made on a quarterly basis. Written agreements with affiliates are further described in the section of this report titled “Affiliated Companies.”

The Company conducts its operations jointly with its affiliates from Progressive Casualty Insurance Company’s home office in Mayfield Village, Ohio. Additional support services are provided by the Progressive Casualty Insurance Company’s personnel in a network of call centers and claim administration offices.

The following table is a summary of the net insurance premiums written by the Company in 2012. The growth of the Company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Homeowner’s multiple peril	$ 5,742,219	$ 3,369,545	$ 5,742,219	$ 3,369,545
Inland marine	27,535,926	18,240,846	27,535,926	18,240,846
Medical professional liability – claims made		3,600		3,600
Other liability – occurrence	13,160,040	7,577,129	13,160,041	7,577,129
Other liability – claims made		3,138		3,138
Private passenger auto liability	686,313,244	622,438,733	686,313,244	622,438,733
Commercial auto liability	86,863,444	66,670,527	86,863,444	66,670,527
Auto physical damage	450,680,033	370,986,841	450,680,033	370,986,841
Fidelity		70		70
Surety		942		942
Total All Lines	$1,270,294,906	$1,089,291,371	$1,270,294,906	$1,089,291,371

The Company participates in a pooling reinsurance agreement with certain of its property-casualty affiliates (Agency Pool). The Agency Pool consists of 12 insurance companies that write insurance for private passenger automobiles and recreational vehicles, and other specialty insurance coverages and related services in the United States. This business is written primarily through independent insurance agencies that represent the Agency Pool, as well as brokerages in New York and California (Agency channel). The Agency Pool also writes commercial automobile business written through both the Agency channel and Direct channel and consists primarily of liability and physical damage insurance for automobiles and trucks owned by small businesses, with the majority of customers insuring three or fewer vehicles. The reinsurance pooling agreement is further described in the section of this report titled "Reinsurance."

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the Company's board of directors may also be members of other boards of directors in the holding company group. All directors are employees of other Progressive companies.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Richard Russell Crawley Stow, Ohio	Central Region General Manager The Progressive Corporation	2014
Karen Marie Bailo Solon, Ohio	Business Leader Agency Distribution The Progressive Corporation	2014
James Michael DeVito Shaker Heights, Ohio	Marketing Process Manager III The Progressive Corporation	2014
Mark Donald Niehaus Granite Bay, California	Personal Lines General Manager The Progressive Corporation	2014
Thomas Hudson Hollyer Chagrin Falls, Ohio	National Product Development Leader The Progressive Corporation	2014
David Lloyd Pratt Hudson, Ohio	Business Leader Usage Based Insurance The Progressive Corporation	2014
Kathryn Margaret Lemieux Chagrin Falls, Ohio	Customer Relations Mgmt Systems Leader The Progressive Corporation	2014

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2012 Compensation
Richard Russell Crawley	President	$33,782
Thomas Alfred King	Treasurer	62,015
Peter James Albert	Secretary and Vice President	22,954
Karen Marie Bailo	Vice President	47,683
Mary Beth Andreano	Vice President	10,161
James Lee Kusmer	Assistant Treasurer	36,339
Kathleen Mary Cerny	Assistant Secretary	3,564

* Total 2012 compensation of all officers is allocated among affiliates based on the Company's net written premium.

Committees of the Board

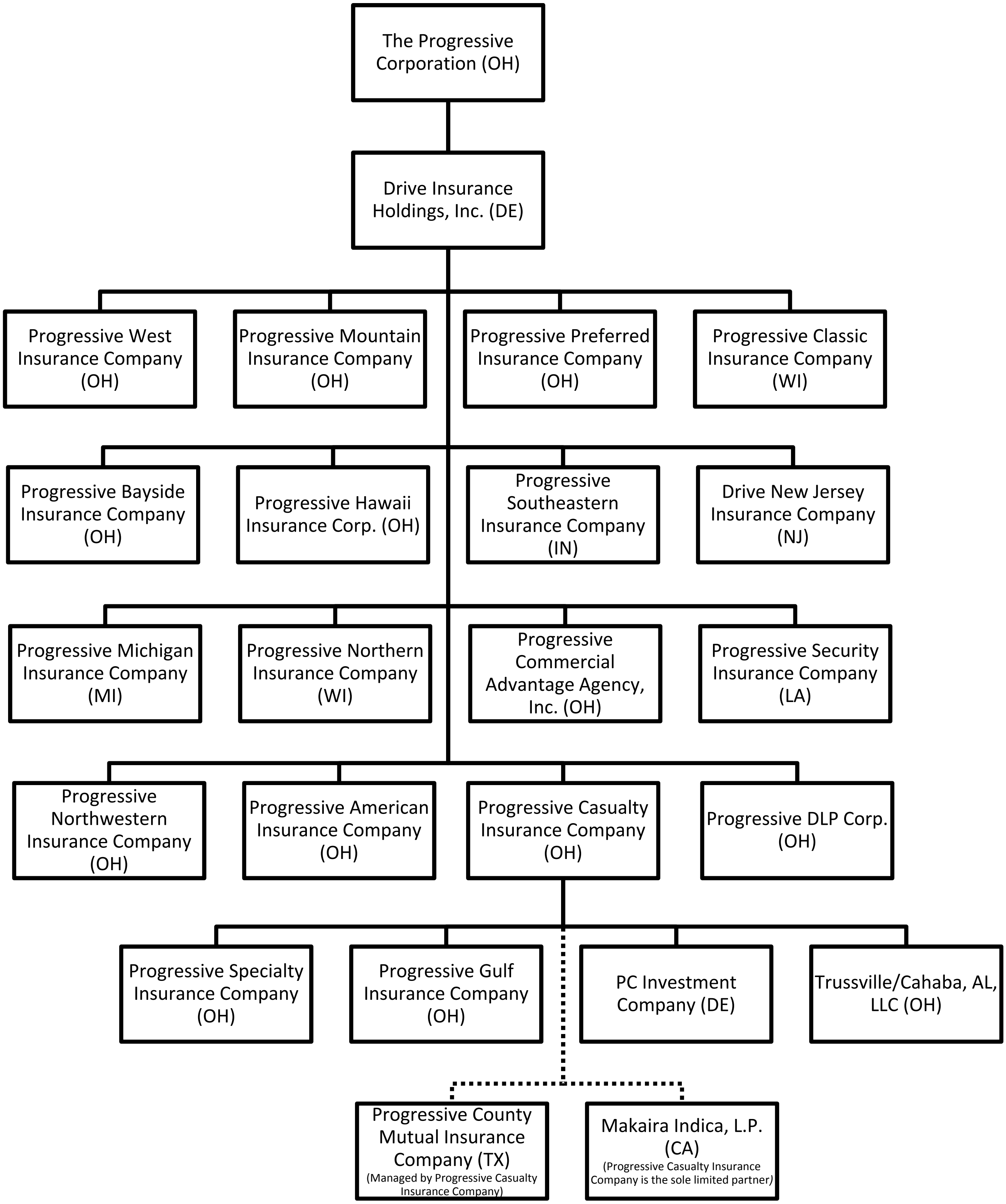
The Company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee	**Investment Committee**
Mark D. Niehaus, Chair	Mark D. Niehaus, Chair
Thomas H. Hollyer	Richard R. Crawley
Richard R. Crawley	David L. Pratt
	Kathryn M. Lemieux, Alternate Member

IV. AFFILIATED COMPANIES

Progressive Northern Insurance Company is a member of a holding company system with The Progressive Corporation as the ultimate parent. The abbreviated organizational chart below depicts the relationships among the affiliates in the direct succession of the control of the Company. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2012



The Progressive Corporation

The Progressive Corporation is an Ohio-domiciled insurance holding company formed in 1965. The predecessor organization commenced business in 1937. The Progressive Corporation became publicly traded after an initial public offering in 1971, and its common stock is currently listed on the New York Stock Exchange. As of December 31, 2012, the audited financial statements of The Progressive Corporation reported assets of $22.7 billion, liabilities of $16.7 billion, and stockholder equity of $6.0 billion. Operations for 2012 produced net income of $902.3 million on total revenues of $17.1 billion.

Drive Insurance Holdings, Inc.

Drive Insurance Holdings, Inc., is a Delaware-domiciled insurance holding company formed in 2003 and owned by The Progressive Corporation. The Company has virtually no expenses and revenue is solely from dividends from its subsidiaries and any gain/loss on the investments in subsidiaries.

Progressive Casualty Insurance Company

Progressive Casualty Insurance Company, a property casualty insurer domiciled in Ohio, provides administrative services through affiliated agreements discussed below. As of December 31, 2012, the audited financial statements of Progressive Casualty Insurance Company reported assets of $5.3 billion, liabilities of $3.9 billion, and policyholders' surplus of $1.4 billion. Operations for 2012 produced net income of $406.7 million on premium earned of $4.4 billion.

Agreements with Affiliates

In addition to common staffing and management control, various written agreements affect PNIC's relationship to its affiliates. The pooling agreement is described in the reinsurance section of the report. A brief summary of the other agreements follows:

1. Type: Consolidated Tax Allocation Agreement

   Parties: PNIC along with other members of the Progressive holding company system

   Effective: August 1, 2005

   Terms: The agreement establishes that an estimated consolidated tax liability will be computed quarterly for The Progressive Corporation, with each member company's recoverable or payable equal to the amount that the member company would have reported on a nonconsolidated basis. Settlements are to be made within 90 days of each quarter in which The Progressive Corporation is required to make a federal income tax estimated payment.

2. Type: Cash Management Agreement

   Parties: PNIC, Progressive Casualty Insurance Company (Casualty) and other Progressive affiliates

   Effective: January 1, 1998

   Terms: All cash receipts or disbursements attributable to PNIC and the other affiliates named in the agreement are deposited in or withdrawn from a centralized account (Cashier Account) that is managed by Casualty. Pursuant to the terms of the agreement, PNIC has a balance in this account that reflects its claim against or obligation to the Cashier Account. Casualty provides the Company with monthly statements that show the month-end balances. Account balances are considered loans and interest is payable to or receivable from the Company's account depending on the balance. The provisions of an Interest Agreement to which PNIC is a party govern the rate of interest. Each participant to the agreement receives a quarter-end balance that represents a net amount against any other intercompany transaction. Settlements are to be in cash or readily marketable securities valued at market value.

3. Type: Interest Agreement

   Parties: PNIC, Progressive Casualty Insurance Company and other Progressive affiliates

   Effective: The Company became a party to this agreement on October 15, 1980, retroactive to January 1, 1980. The original effective date of the agreement was January 1, 1977.

   Terms: This agreement establishes the variable interest rate that governs each entity's participation in Casualty's Cashier Account as noted in the Cash Management Agreement in #2 above. Interest is to be computed at the prevailing 90-day U.S. Treasury bill rate on the last day of each month rounded to the nearest quarter of a percent.

4. Type: Investment Services Agreement

   Parties: PNIC along with other participating affiliates and Progressive Capital Management Corp. (Progressive Capital). Progressive Capital was formerly known as PPLP Corporation, then Progressive Partners, Inc., until it changed its name to that currently used on June 8, 1998.

   Effective: July 16, 1992, as subsequently amended

   Terms: Progressive Capital provides investment management services to members of the Progressive holding company system named in the agreement. The agreement requires each of the participating companies to reimburse Progressive Capital for an equitable portion of the costs and expenses it incurs in providing its services. Progressive Capital does not charge any additional management fees to the participating companies.

5. Type: Joint Servicing (Cost Allocation) Agreement

Parties: PNIC and Progressive Casualty Insurance Company

Effective: July 1, 2007

Terms: The Company provides Casualty with underwriting and loss adjustment services for specific business produced, and Casualty provides the Company with similar services for other specific business provided. In exchange for these services, the companies charge management fees based on each company's use of the other's services.

6. Type: General Agency Agreement

Parties: PNIC, Progressive Specialty Insurance Agency, Inc. (Agency) and other Progressive affiliates

Effective: December 1, 2006

Terms: Agency will act as participating companies' respective general agent in the states of California, Kentucky, Louisiana, Washington and other such states as the parties may agree upon.

V. REINSURANCE

PNIC cedes 100% of its direct business above minor underlying coverages to the Progressive reinsurance pool (Agency Pool) under an agreement effective January 1, 1988, and last amended as of January 1, 2007. PNIC then receives a 12% retrocession from the Agency Pool. The Progressive reinsurance pooling agreement contained proper insolvency provisions. The members of the Agency Pool, with their respective pool percentages, are shown below.

Participation:	
Progressive Casualty Insurance Company	49%
Progressive Northern Insurance Company	**12**
Progressive Northwestern 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 Mountain Insurance Company	1
Progressive Southeastern Insurance Company	1
Total	100%

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the Company as reported to the Commissioner of Insurance in the December 31, 2012, annual statement. Also included in this section are schedules that reflect the growth of the Company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Progressive Northern Insurance Company
Assets
As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 766,323,658	$	$ 766,323,658
Stocks:			
Common stocks	131,799,360		131,799,360
Cash, cash equivalents, and short-term investments	72,712,630		72,712,630
Investment income due and accrued	5,507,789		5,507,789
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	28,774,088	6,361,389	22,412,699
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	181,234,901		181,234,901
Reinsurance:			
Amounts recoverable from reinsurers	9,138,451		9,138,451
Net deferred tax asset	30,841,553		30,841,553
Receivable from parent, subsidiaries, and affiliates	24,138,770		24,138,770
Write-ins for other than invested assets:			
Net New York state assessment recoverable	1,102,025		1,102,025
State unearned surcharge recoverable	394,535		394,535
State tax credits	44,813		44,813
Prepaid expenses	980,307	980,307	
Miscellaneous other assets	18,479	18,479	
Total Assets	$1,253,011,359	$7,360,175	$1,245,651,184

Progressive Northern Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2012

Losses		$ 372,252,858
Reinsurance payable on paid loss and loss adjustment expenses		8,534,570
Loss adjustment expenses		74,321,507
Commissions payable, contingent commissions, and other similar charges		1,776,240
Other expenses (excluding taxes, licenses, and fees)		34,175,672
Taxes, licenses, and fees (excluding federal and foreign income taxes)		8,757,738
Current federal and foreign income taxes		8,752,277
Unearned premiums		324,200,664
Advance premium		8,333,765
Ceded reinsurance premiums payable (net of ceding commissions)		46,886
Amounts withheld or retained by company for account of others		111,006
Drafts outstanding		51,391,162
Write-ins for liabilities:		
State plan liability		4,562,401
Other liabilities		758,167
Escheatable property		154,039
Unearned fee revenue		10,275
Total liabilities		898,139,227
Common capital stock	$ 3,008,000	
Gross paid in and contributed surplus	236,508,699	
Unassigned funds (surplus)	107,995,258	
Surplus as regards policyholders		347,511,957
Total Liabilities and Surplus		$1,245,651,184

Progressive Northern Insurance Company
Summary of Operations
For the Year 2012

Underwriting Income		
Premiums earned		$1,068,807,082
Deductions:		
Losses incurred	$692,405,366	
Loss adjustment expenses incurred	110,498,667	
Other underwriting expenses incurred	230,829,165	
Total underwriting deductions		1,033,733,198
Net underwriting gain (loss)		35,073,884
Investment Income		
Net investment income earned	26,259,579	
Net realized capital gains (losses)	5,367,213	
Net investment gain (loss)		31,626,792
Other Income		
Net gain (loss) from agents' or premium balances charged off	(10,984,091)	
Finance and service charges not included in premiums	26,242,761	
Write-ins for miscellaneous income:		
Miscellaneous other income	927,294	
Service business revenue	93,996	
Interest income on intercompany balances	67,837	
Total other income		16,347,797
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		83,048,473
Federal and foreign income taxes incurred		31,149,566
Net Income		$ 51,898,907

Progressive Northern Insurance Company
Cash Flow
For the Year 2012

Premiums collected net of reinsurance			$1,084,580,122
Net investment income			41,974,312
Miscellaneous income			16,776,805
Total			1,143,331,239
Benefit- and loss-related payments		$660,119,606	
Commissions, expenses paid, and aggregate write-ins for deductions		337,285,927	
Federal and foreign income taxes paid (recovered)		32,077,381	
Total deductions			1,029,482,914
Net cash from operations			113,848,325
Proceeds from investments sold, matured, or repaid:			
Bonds	$435,396,522		
Stocks	30,805,499		
Miscellaneous proceeds	853,188		
Total investment proceeds		467,055,209	
Cost of investments acquired (long-term only):			
Bonds	413,923,970		
Stocks	50,359,273		
Total investments acquired		464,283,243	
Net cash from investments			2,771,966
Cash from financing and miscellaneous sources:			
Capital and paid in surplus less treasury stock		467,646	
Dividends to stockholders		46,400,000	
Other cash provided (applied)		1,282,976	
Net cash from financing and miscellaneous sources			(44,649,378)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			71,970,913
Cash, cash equivalents, and short-term investments:			
Beginning of year			741,717
End of Year			$ 72,712,630

Progressive Northern Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2012

Assets		$1,245,651,184
Less liabilities		898,139,227
Adjusted surplus		347,511,957
Annual premium:		
Lines other than accident and health	$1,089,291,371	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		217,858,274
Compulsory Surplus Excess (or Deficit)		$ 129,653,683
Adjusted surplus (from above)		$ 347,511,957
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		239,644,101
Security Surplus Excess (or Deficit)		$ 107,867,856

Progressive Northern Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2012

The following schedule details items affecting surplus during the period under examination as reported by the Company in its filed annual statements:

	2012	**2011**	**2010**	**2009**	**2008**
Surplus, beginning of year	$329,711,536	$315,654,476	$ 326,891,755	$ 354,836,535	$366,150,862
Net income	51,898,907	63,665,685	95,866,156	115,789,085	39,315,558
Change in net unrealized capital gains/losses	5,329,102	2,546,381	5,752,196	3,287,429	(62,005,768)
Change in net deferred income tax	4,700,397	3,214,870	(21,932,599)	1,378,344	17,685,077
Change in nonadmitted assets	1,804,369	78,413	19,756,698	(4,508,930)	(16,048,098)
Cumulative effect of changes in accounting principles				856,297	
Capital changes:					
Paid in				(20,910,500)	
Surplus adjustments:					
Paid in	467,646	551,711	520,270	(12,036,505)	9,738,903
Dividends to stockholders	(46,400,000)	(56,000,000)	(111,200,000)	(111,800,000)	
Surplus, End of Year	$347,511,957	$329,711,536	$ 315,654,476	$ 326,891,755	$354,836,534

Progressive Northern Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2012

The Company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2012**	**2011**	**2010**	**2009**	**2008**
#1	Gross Premium to Surplus	679.0%	688.0%	707.0%	692.0%	686.0%
#2	Net Premium to Surplus	313.0*	308.0*	311.0*	301.0*	324.0*
#3	Change in Net Premiums Written	7.0	4.0	0.0	-1.0	-4.0
#4	Surplus Aid to Surplus	0.0	0.0	0.0	0.0	0.0
#5	Two-Year Overall Operating Ratio	92.0	88.0	88.0	89.0	88.0
#6	Investment Yield	2.8*	2.6*	3.0*	3.9	4.3
#7	Gross Change in Surplus	5.0	4.0	-3.0	-8.0	-5.0
#8	Change in Adjusted Surplus	5.0	4.0	-4.0	1.0	-8.0
#9	Liabilities to Liquid Assets	73.0	73.0	73.0	73.0	74.0
#10	Agents' Balances to Surplus	6.0	8.0	8.0	10.0	7.0
#11	One-Year Reserve Development to Surplus	1.0	-2.0	-5.0	-2.0	1.0
#12	Two-Year Reserve Development to Surplus	-3.0	-7.0	-4.0	-1.0	2.0
#13	Estimated Current Reserve Deficiency to Surplus	-1.0	-5.0	-4.0	5.0	-5.0

Ratio No. 2 measures underwriting risk in terms of premium volume, net of the effects of premiums ceded to reinsurers, as compared to policyholders' surplus. The exceptional results for 2008 through 2012 were because of higher net premium to surplus ratios than the 3 to 1 industry standard. The Company targets a 3.1 to 1 writings to surplus ratio due to the parent company's aggressive capital management strategy. This resulted in variances of the net premium to surplus ratio from 324% to 301%. It was noted that the Company has historically strong operating results and the holding company has demonstrated the ability to provide capital when necessary to maintain the target writings ratio.

Ratio No. 6 evaluates the yield on investments that an insurer recognizes during an operating year as investment income and realized gains compared to annual average cash and total invested assets. The exceptional results in 2010, 2011 and 2012 were due to current market conditions.

Growth of Progressive Northern Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2012	$1,245,651,184	$898,139,227	$347,511,957	$ 51,898,907
2011	1,167,302,651	837,591,115	329,711,536	63,665,685
2010	1,135,478,309	819,823,833	315,654,476	95,866,156
2009	1,176,588,264	849,696,509	326,891,755	115,789,085
2008	1,322,003,255	967,166,721	354,836,534	39,315,558
2007	1,167,167,632	852,243,382	314,924,250	92,598,560

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2012	$2,359,586,277	$1,089,291,371	$1,068,807,082	75.1%	21.6%	96.7%
2011	2,267,779,203	1,016592,889	1,002,919,938	72.0	22.3	94.3
2010	2,230,685,355	980,872,493	971,982,497	70.3	22.8	93.1
2009	2,262,078,157	984,260,732	998,648,918	70.0	21.9	91.9
2008	2,343,280,499	997,292,582	974,862,030	73.4	21.8	95.2
2007	2,183,070,350	1,004,441,078	1,018,978,633	71.4	21.5	92.9

Private passenger auto liability accounts for 54% of the Company's direct premium written and auto physical damage accounts for 35% of the Company's direct premium written. The Company continues to remain profitable and has consistently provided a dividend to its direct parent from 2009 to 2012.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the Company as of December 31, 2012, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

Summary of Current Examination Results

The current examination resulted in no adverse comments or recommendations.

VIII. CONCLUSION

PNIC, a stock property and casualty company operating under ch. 611, Wis. Stat., was incorporated in the state of Wisconsin on August 19, 1980, and commenced business on March 8, 1981. The Progressive Corporation was the parent and sole shareholder of the Company until it transferred ownership to Drive Insurance Holdings, Inc., on January 1, 2004.

While the Company has some employees, all operations are conducted by employees of Progressive subsidiaries in accordance with their business practices and internal controls. Virtually all expenses are initially paid by Progressive Casualty Insurance Company. Expenses other than commissions, taxes, licenses and fees are then allocated on the basis of specific identification, utilization estimates developed from such criteria as premium or claim volume, and time studies, in accordance with the Progressive reinsurance pooling agreement. Tax allocations are established in accordance with a written federal income tax allocation agreement.

The Company participates in a pooling reinsurance agreement with certain of its property-casualty affiliates (Agency Pool); it assumes a 12% share of the pooled business. The Agency Pool consists of 12 insurance companies that write insurance for private passenger automobiles and recreational vehicles, and other specialty insurance coverages and related services in the United States. This business is written primarily through independent insurance agencies that represent the Agency Pool, as well as brokerages in New York and California (Agency channel). The Agency Pool also writes commercial automobile business written through both the Agency channel and Direct channel and consists primarily of liability and physical damage insurance for automobiles and trucks owned by small businesses, with the majority of customers insuring three or fewer vehicles

The current examination resulted in no adverse comments or recommendations. No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the Company as of December 31, 2012, is accepted.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no adverse comments or recommendations.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the Company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Scott Bleifuss	Insurance Financial Examiner
Raymond Kangogo	Insurance Financial Examiner
Jerry DeArmond	Reserve Specialist
Thomas Houston	IT Specialist
Fred Thornton	Workpaper Specialist
John Litweiler	Workpaper Specialist

Respectfully submitted,

Stephanie Falck, CFE
Examiner-in-Charge