

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

Progressive Northern Insurance Company

NAIC # 38628

Examination Authority # 38628-13-729
6300 Wilson Mills Road
Mayfield Village, Ohio 44143

As of

December 31, 2012

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2012 on

Progressive Northern Insurance Company

is a true and correct copy of the document filed with this Department.

Attest By: _____



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
Progressive Northern Insurance Company
AS OF
December 31, 2012

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A blue ink handwritten signature of Karen Weldin Stewart, consisting of several fluid, overlapping strokes.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Honorable Karen Weldin Stewart CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 13.729, and pursuant to statutory provisions including 18 Del. CODE §318-322, a market conduct examination has been conducted of the affairs and practices of:

Progressive Northern Insurance Company

The examination was performed as of December 31, 2012. Progressive Northern Insurance Company, hereinafter referred to as the "Company", was incorporated under the laws of Ohio. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

121 Continental Drive, Suite 208
Newark, DE 19713

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

Progressive Northern Insurance Company, is domiciled in Ohio and is licensed in 39 states and the District of Columbia. The Company's main administrative offices are located in Mayfield Village, OH.

On their 2012 annual statement filed with the Department, the Progressive Northern Insurance Company reported total premiums written for all states of \$1,089,291,371 of which \$21,909,803 was written in Delaware. In 2011 total premiums were \$1,016,592,889 of which \$20,447,559 was written in Delaware.

The examination focused on the Company's private passenger automobile business in the following areas of operation: Company Operations and Management; Complaint Handling. Specifically, this examination focused on the Company's claims activities related to the use of independent medical examiners, peer review organizations, arbitration, and the application of surcharges following a claim.

This effort was conducted to ensure compliance with transacting insurance as defined by 18 Del. C. §103, and applicable statutes related to private passenger automobile insurance.

The following exceptions were noted in the areas of operation reviewed:

Claims (Surcharges): 7 Exceptions - 18 Del. Admin 609 Limitations on Automobile Surcharges in Voluntary Markets and the Assigned Risk Plan § 5.1.3

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 Del. CODE §318-322 and covered the experience period of January 1, 2011 through December 31, 2012. This examination was part of a series of examinations conducted to review the use of independent medical examiners, peer review organizations, arbitration and surcharges after an at-fault accident.

The examination was a target market conduct examination of the Company's private passenger automobile business in the following areas of operation: Company Operations and Management; Complaint Handling, and Claims.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While the examiners' report on the errors found in individual files, the examination also focuses on general business practices of the Company.

The Company identified the universe of files for each segment of the review. Based on

the universe sizes, random sampling was utilized to select the files reviewed during this examination.

Delaware Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and review written summaries provided on the exceptions found.

COMPANY HISTORY

Progressive Northern Insurance Company (PNIC) is a wholly-owned subsidiary of Progressive Direct Holdings, Inc., whose ultimate parent is The Progressive Corporation Insurance Holding Company. PNIC was incorporated in the state of Wisconsin in August, 1980 for the purpose of transacting insurance business, with the exception of life. PNIC is rated A+ by A.M. Best. PNIC is a property and casualty insurer and is part of The Progressive Insurance Group, which consists of 58 companies, of which 34 are insurance companies.

PNIC is currently licensed in 39 states and the District of Columbia. The Company is licensed to sell Homeowner Multiple Perils, Inland Marine, Other Liability, Other Private Passenger Auto Liability, Private Passenger Auto No-Fault, Private Passenger Auto Physical Damage, Commercial Auto No-Fault, Other Commercial Auto Liability and Commercial Auto Physical Liability.

COMPANY OPERATIONS AND MANAGEMENT

Internal Audit

The Company provided information and documentation related to internal audits and internal market regulation/conduct audit reviews. Included with the requests were regulatory actions and court actions taken against the Company and Market Conduct

Examination Reports. All reports covered the three years prior to December 31, 2012. The requested information and supporting documentation was provided by the Company and reviewed during the course of the examination.

The examination included a sample review of internal audit reports and internal market regulation/conduct audits under the examination scope. When reports identified deficiencies, corrective actions and remediation plans were included with the business units' response. Additionally, the information and documentation reviewed provided assurance that the internal controls methods and audit procedures in place complied with the Company's established policies and procedures.

There were no exceptions noted.

CONSUMER COMPLAINTS

All written complaints (including email) are forwarded to the Consumer Relations Department. Once received, the Complaint Response Coordinator will research and enter the complaints into the Complaint Database. At the time of entry, a Business Contact is assigned to the complaint. The person responsible for responding to the complaint varies as there is either a state contact for claims complaints or a Resolution Specialist for customer service complaints.

Progressive Northern had a total of 32 Complaints reported in Delaware during the examination period. They had 14 complaints in 2011 and 18 complaints in 2012.

The complaint log was reviewed for compliance with 18 Del. C. §2304 (17). This Section of the Code requires maintenance of a complete record of all complaints received since the date of its last examination. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with 18 Del. Admin. Code 902 §1.2.1.2.

There were no exceptions noted during the review.

CLAIMS

Independent Medical Examinations

The Company provided all claims related procedures, reference materials, newsletters, and bulletins utilized during the scope of the examination.

The Company was requested to provide a listing of claims that were referred for Independent Medical Examinations (IME) claims. There were a total of 43 Bodily Injury

Claims where IMEs were requested. The IME claims were reviewed for compliance with 18 Del. C. §2304 Unfair Practices in the Insurance Business.

No exceptions were noted.

Peer Review Organizations

The Company provided a listing of claims that went through peer review during the exam period. There was one claim and it was reviewed for compliance with 18 Del. C. §2304 Unfair Practices in the Insurance Business.

No exceptions were noted

Arbitration

The Company was requested to provide a listing of claims that went through arbitration during the exam period. There were two claims that went through arbitration and these claims were reviewed for compliance with 18 Del. C. §2304 Unfair Practices in the Insurance Business.

No exceptions were noted.

Surcharges

The Company provided copies of surcharge plans filed with the Delaware Department of Insurance that were in use during the examination period. The Company also provided copies of surcharge algorithms and a listing of policies for which surcharges were added after a claim. The surcharge plans, algorithms and listing of policies for which surcharges were added after a claim were reviewed. The Company identified a universe of 639 policies where surcharges were added after an at fault claim of which a sample of 50 policies were selected for review.

The following exceptions were noted:

7 Exceptions - 18 Del. Admin 609 Limitations on Automobile Surcharges in Voluntary Markets and the Assigned Risk Plan § 5.1.3

No surcharge may be imposed for the first at-fault accident during any three year period which exceeds pro rata over a three year period the amount of the claim paid or reserved by the insurer. The amount of the claim shall be net of any deductible amounts assumed by the insured. Each insurer shall file a surcharge plan with the Department which in all but exceptional cases will comply with this subparagraph. An insured may question the amount of the surcharge whereupon a decision by the Department of Insurance shall be rendered within fifteen (15) business days after receiving the inquiry. In rendering its

decision, the Department shall consult with the insurer to confirm the amount of the claim and the amount of the surcharge related thereto. If, after such review, the Department finds that the insurer's surcharge exceeds the standard required by this subsection, the Department may order the insurer to adjust the surcharge amount consistent with this subsection.

Five policies had a surcharge applied that exceeded the pro rata amount of the total amount of the claim paid. Two policies had a surcharge applied that exceeded the total amount of the claim paid.

Recommendation: It is recommended that the Company ensure that all surcharges applied to the insured policies are in accordance with 18 Del. Admin 609 § 5.1.3.

The Company has engaged in conversations with examiners regarding the Company's inability to fully comply with 18 Del. Admin 609 § 5.1.3. The Company has advised that this surcharge requirement is unique to Delaware. This presents a challenge for them to build in a solution that will work with their rating system. Their current rating system does not have access to specific claim amounts. Claims are evaluated in a separate system and any at fault accidents above a set threshold are coded as "AAF". The rating system only has access to the AAF code and the driver to whom it is assigned. There is no way to do a direct comparison between the surcharge amount and the claim amount. The Company has attempted to rectify this situation by deviating from their minimum standard threshold for the application of a surcharge from \$500 to \$850 for Delaware policyholders. The Company has also held that it has instituted an accident forgiveness program for certain policyholders and forgives the first accident which they believe would meet the requirements of the statute.

The Company has indicated that they are currently in the process of a major policy system upgrade for Delaware. They are hoping to be able to start an analysis project in 2014 and then depending on the results and required resources could begin programming in the fourth quarter. They are targeting to have a new filing with the Department in the beginning of 2015.

The Company has acknowledged the findings from the exam and plan on rectifying those that were overcharged. They advised they will wait to hear from the Department as to how to proceed or they will proceed with their normal process when an error is discovered. The process of identifying other policies that have been affected is labor intensive and time consuming. It takes a high level of ability to perform the calculations, which limit the individuals capable of performing them. These few individuals have other responsibilities. The process takes four to eight hours for one six month policy term.

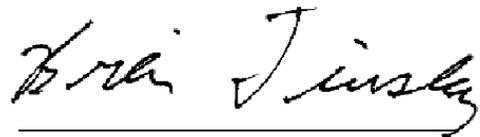
It is recommended that the Company pursue additional discussions with the DDOI to develop a plan to refund the policies identified as overcharged during the exam and to identify other policies that may have been overcharged. In addition the company needs to determine how to prevent this exception in the future.

CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended that the Company ensure that all surcharges applied to the insured policies comply with 18 Del. Admin 609 § 5.1.3. (Claims - Surcharges)
2. It is recommended that the Company engage in direct communication with the DDOI regarding the Company's inability to fully comply with 18 Del. Admin 609 § 5.1.3.

The examination conducted by Shelly Schuman, Brian Tinsley, Ron Poplos, and Jason Nemes is respectfully submitted.



Brian Tinsley, CIE, MCM
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance