

REPORT ON EXAMINATION

OF

PROGRESSIVE SELECT INSURANCE

COMPANY

RIVERVIEW, FLORIDA

AS OF

DECEMBER 31, 2007

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	3
GENERAL	3
CAPITAL STOCK.....	4
PROFITABILITY OF COMPANY	4
DIVIDENDS TO STOCKHOLDERS	5
MANAGEMENT.....	5
CONFLICT OF INTEREST PROCEDURE.....	6
CORPORATE RECORDS	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	7
SURPLUS DEBENTURES	7
AFFILIATED COMPANIES.....	7
PROGRESSIVE SELECT INSURANCE COMPANY	9
ORGANIZATIONAL CHART	9
TAX ALLOCATION AGREEMENT.....	10
JOINT SERVICING AGREEMENT	10
CASH MANAGEMENT AGREEMENT	10
LICENSING AGREEMENT	11
PRODUCERS AGREEMENT	11
FIDELITY BOND AND OTHER INSURANCE.....	11
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.....	12
STATUTORY DEPOSITS.....	12
INSURANCE PRODUCTS	12
TERRITORY	12
TREATMENT OF POLICYHOLDERS.....	13
REINSURANCE.....	13
ASSUMED.....	13
CEDED	13
ACCOUNTS AND RECORDS	14
CUSTODIAL AGREEMENT	14
INDEPENDENT AUDITOR AGREEMENT.....	14

INFORMATION TECHNOLOGY (IT).....	15
FINANCIAL STATEMENTS PER EXAMINATION	15
ASSETS	16
LIABILITIES, SURPLUS AND OTHER FUNDS	17
STATEMENT OF INCOME.....	18
COMMENTS ON FINANCIAL STATEMENTS.....	19
ASSETS	19
LIABILITIES	19
CAPITAL AND SURPLUS.....	19
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	20
SUMMARY OF FINDINGS	21
CONCLUSION	22

April 17, 2009

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Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2007, of the financial condition and corporate affairs of:

**PROGRESSIVE SELECT INSURANCE COMPANY
4030 CRESCENT PARK DRIVE, BLDG. B
RIVERVIEW, FLORIDA 33569**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004, through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced with planning at the Ohio Department of Insurance. The fieldwork commenced on July 28, 2008, and was concluded on April 17, 2009.

This financial examination was a coordinated zone exam in conjunction with the Ohio Department of Insurance (Department) conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating 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 and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2007. Transactions subsequent to year-end 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

There were no adverse findings reported in the prior examination as of December 31, 2003.

Information Technology (IT)

The Ohio Department of Insurance performed an evaluation of the information technology and computer systems of the Company. **Resolution:** Results of the evaluation were provided in a report to the Company.

HISTORY

General

The Company was incorporated on August 12, 1994, under the laws of the State of Florida, as Auto Pro Insurance Company, a stock property and casualty insurer, and a wholly-owned subsidiary of PC Investment Company, which was wholly-owned by Progressive Casualty Insurance Company (PCIC), an Ohio domiciled insurer licensed to transact insurance business in Florida. PCIC was a wholly-owned subsidiary of The Progressive Corporation (TPC), an Ohio insurance holding company.

On January 1, 2004, ownership of the Company was transferred from TPC to Progressive Direct Holdings, Inc., a wholly-owned subsidiary of TPC, that is incorporated in Delaware. On May 18, 2006, Progressive Auto Pro Insurance Company changed its name to Progressive Select Insurance Company.

On May 18, 2006 Progressive Auto Pro Insurance Company changed its name to Progressive Select Insurance Company. Progressive Select Insurance Company is a member of a holding company and owned by Progressive Direct Holdings, Inc.

As of December 31, 2007, in accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact Inland marine, Other liability, Private passenger automobile liability and Private passenger automobile physical damage only in the State of Florida.

The Company's Articles of Incorporation and Bylaws were not amended during the period examined.

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	50,000
Number of shares issued and outstanding	10,000
Total common capital stock	\$1,000,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, Progressive Direct Holdings, Inc.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2007	2006	2005	2004
Premiums Earned	50,829,603	52,721,033	45,836,086	35,656,350
Net Underwriting Gain/(Loss)	3,733,923	3,667,277	48,541	616,490
Net Income	5,638,160	4,232,088	936,645	1,030,551
Total Assets	231,608,193	238,598,453	245,416,442	180,497,229
Total Liabilities	162,398,963	168,250,622	184,321,152	134,191,573
Surplus As Regards Policyholders	69,209,230	70,347,831	61,095,290	46,305,656

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid an ordinary dividend to its stockholders in 2007 in the amount of \$7,000,000.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2007, were:

Directors

Name and Location	Principal Occupation
Jeffrey E. Briglia Shaker Heights, Ohio	Progressive Insurance Group Customer Relationship Business Leader
Steven A. Broz Chagrin Falls, Ohio	Progressive Insurance Group Personal Lines General Manager
James R. Haas Cleveland Heights, Ohio	Progressive Insurance Group Direct Product Development, Personal Lines
Caroline M. Koran Bay Village, Ohio	Progressive Insurance Group HR Business Leader
Scott W. Ziegler Richmond, Va.	Progressive Insurance Group National Product Management Leader

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Scott W. Ziegler	President
Jeffrey E. Briglia	Treasurer
Michael R. Uth	Secretary

Mariann W. Marshall	Vice President
Raymond S. Ling	Assistant Vice President
Scott E. Coleman	Asst. Treasurer
James R. Haas	Vice President
Karen A. Kosuda	Assistant Secretary
Patrick K. Callahan	Vice President
Michael J. Moroney	Vice President

The Company's board appointed several internal committees in accordance with Section 607.0825 Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2007:

Executive Committee

Scott W. Ziegler*
James R. Haas
Steven A. Broz
Caroline M. Koran

Investment Committee

Scott W. Ziegler*
Jeffrey A. Briglia
Robin A. Harbage
Steven A. Broz

* Chairman

The Company utilized the audit committee of its parent as provided by Section 624.424(8) (c), Florida Statutes.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The minutes of the Board adequately documented meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period under review.

Surplus Debentures

The Company did not issue any surplus debentures during the period under review nor did it have any surplus debentures outstanding.

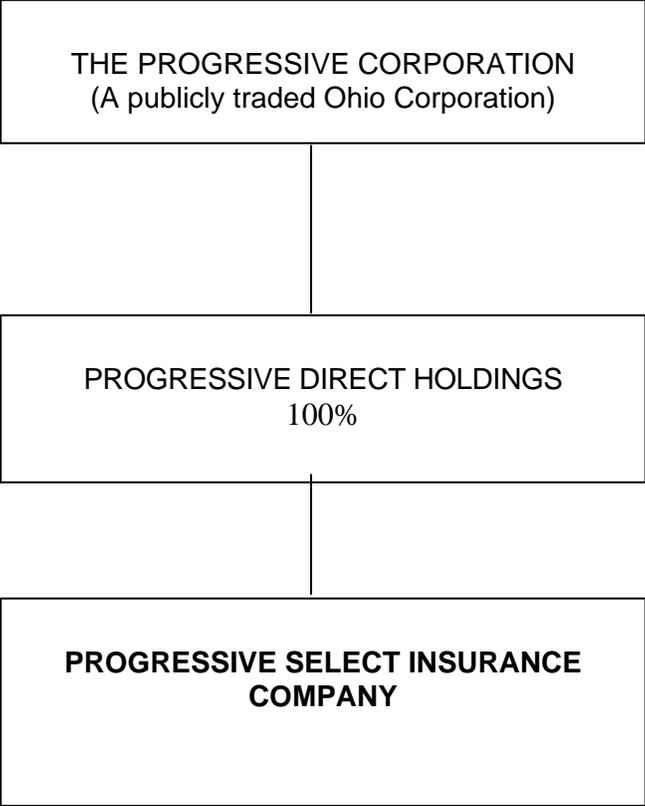
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 30, 2009, as required by Section 628.801, Florida Statute and Rule 690-143.046, Florida Administrative Code. The Company was indirectly a wholly owned subsidiary of the Corporation, an insurance holding company

formed in 1965. Various inter-company agreements were in effect at December 31, 2007, which provided for centralized cash and investment management systems.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

**PROGRESSIVE SELECT INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2007**



The following agreements were in effect between the Company and its affiliates:

Allocation of Federal Income Taxes

The Company and other members of its holding company system entered into an income tax sharing agreement with the Corporation, whereby the companies filed a consolidated federal income tax return. Taxes were computed for each entity on a stand alone basis.

Joint Servicing Agreement

The Company entered into an agreement with Progressive Direct Insurance Company (Progressive Direct), effective December 27, 2003, whereby the Company received at cost certain services and facilities that assisted the Company in transacting insurance business. The Company also provided certain services and facilities to Progressive Direct to assist transacting its insurance business.

Cash Management Agreement

A cash management agreement was entered into between PCIC, as the Cash Manager, and various members of The Progressive Group, including the Company. The Ohio Department of Insurance approved the agreement effective January 1, 1998, for Ohio domiciled companies. Effective June 1, 1998, companies domiciled in other states, including Florida, were included in this agreement. The agreement reduced to written form the cash management system that had been in place for many years between the various companies and PCIC, as manager.

Licensing Agreement

The Company entered into a licensing agreement effective May 1, 2002, with its affiliate Progressive Casualty and various other affiliates, memorializing existing practices wherein Progressive Casualty granted the Company and others the right to use various propriety marks.

Producers Agreement

The Company and Progressive Auto Pro Insurance Agency, Inc. (the Agency) were party to a producers agreement effective January 1, 2004, which authorized the Agency to solicit business on the Company's behalf. Commissions were paid to Agency for producing the business.

FIDELITY BOND AND OTHER INSURANCE

The Progressive Group of Companies maintained aggregate fidelity bond coverage of \$50,000,000, with a single loss limit of \$25,000,000 and a deductible of \$1,000,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained insurance coverage through a Commercial General Liability policy, a Garage Liability policy, an Excess Liability policy, a Commercial Property policy, a Commercial Auto policy and a Claims-Made Professional Liability insurance policy. All policies were in the name of The Progressive Corporation and all of its subsidiaries and affiliates.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company was one of the companies in the Progressive Group that retained employees. The Company participated in benefit plans offered by the Corporation but had no legal obligation or direct liability for expenses in certain benefit plans. Member companies were allocated employee benefit expense based upon product lines and employee services, through the cost allocation agreement. Health, dental and long-term disability plans, as well as pre-paid medical and child care programs, were offered to employees. The Group had a two tiered retirement program. The first tier was a defined contribution pension plan covering all employees who met age and length of service requirements. The second tier was a long term savings plan under which the Corporation matched amounts contributed to the plan by an employee up to a maximum of 3% of the employee's eligible compensation.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	USTNT, 5.0% 02/15/11	<u>\$ 370,752</u>	<u>\$385,447</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 370,752</u>	<u>\$385,447</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance only in the state of Florida, in accordance with Section 624.401(2), Florida Statutes.

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume risk through reinsurance.

Ceded

The Company ceded 90% of its direct written risk to its affiliate, Progressive Direct Insurance Company, through a quota share contract. Other immaterial amounts were ceded to several non-affiliated reinsurers.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Mayfield Village, Ohio, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004 through 2007, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and primary non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Citibank, NA. The agreement was in conjunction with thirty-six other Progressive companies, had been filed and approved by the Office, included all required clauses as described in 69O-143.042 Florida Administrative Code.

Independent Auditor Agreement

The Company maintained a contract with PricewaterhouseCoopers (PwC) for the purpose of conducting Statutory and GAAP financial audits and preparing certified statutory financial statements. The GAAP audit was conducted on a consolidated basis for the Progressive Group.

Information Technology (IT)

The Ohio Department of Insurance performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were provided in a report to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus.

PROGRESSIVE SELECT INSURANCE COMPANY
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$58,291,577		\$58,291,577
Cash:	4,700,000		4,700,000
Investment income due and accrued	939,054		939,054
Premiums and considerations:			
Uncollected premiums and agents' balances	10,938,783		10,938,783
Deferred premiums, agents' balances	64,870,193		64,870,193
Reinsurance recoverable	86,963,811		86,963,811
Net deferred tax asset	3,661,635		3,661,635
Aggregate write-in for other than invested assets	1,243,140		1,243,140
	<hr/>		
Totals	\$231,608,193	\$0	\$231,608,193
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PROGRESSIVE SELECT INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$16,520,937		\$16,520,937
Reinsurance payable	0		0
Loss adjustment expenses	5,066,238		5,066,238
Commissions payable	548		548
Other expenses	641,588		641,588
Taxes, licenses and fees	921,092		921,092
Current federal and foreign income taxes	433,879		433,879
Unearned premium	12,436,135		12,436,135
Advance premiums	3,642,091		3,642,091
Ceded reinsurance premiums payable	81,085,521		81,085,521
Amounts w/h or retained by company for acct of others	4,173		4,173
Drafts outstanding	28,583,842		28,583,842
Payable to parent, subsidiaries and affiliates	9,623,616		9,623,616
Aggregate write-ins for liabilities	3,439,303		3,439,303
Total Liabilities	\$162,398,963	\$0	\$162,398,963
Common capital stock	\$1,000,000		\$500,000
Gross paid in and contributed surplus	59,636,301		1,200,000
Unassigned funds (surplus)	8,572,929		4,564,923
Surplus as regards policyholders	\$69,209,230		\$69,209,230

PROGRESSIVE SELECT INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned	\$50,829,603
Deductions:	
Losses incurred	32,650,731
Loss expenses incurred	6,512,903
Other underwriting expenses incurred	7,932,046
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	\$47,095,680
Net underwriting gain or (loss)	\$3,733,923

Investment Income

Net investment income earned	\$2,701,152
Net realized capital gains or (losses)	393,842
Net investment gain or (loss)	\$3,094,994

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$907,306)
Finance and service charges not included in premiums	4,407,527
Aggregate write-ins for miscellaneous income	(2,491,279)
Total other income	\$1,008,942
Net income before dividends to policyholders and before federal & foreign income taxes	\$7,837,859
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$7,837,859
Federal & foreign income taxes	2,199,699
Net Income	\$5,638,160

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$70,347,831
Net Income	\$5,638,160
Change in net deferred income tax	(117,172)
Change in non-admitted assets	464,211
Change in provision for reinsurance	0
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	(123,800)
Dividends to stockholders	(7,000,000)
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	(\$1,138,601)
Surplus as regards policyholders, December 31 current year	\$69,209,230

COMMENTS ON FINANCIAL STATEMENTS

Assets

Bonds \$58,291,577

Bonds reported as \$58,291,577, were a slight decrease of less than four percent over the 2006 reported bond amount.

Liabilities

Losses and Loss Adjustment Expenses \$21,587,175

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Ohio Department of Insurance actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus \$69,209,230

The amount reported by the Company of \$69,209,230, exceeded the minimum requirements of ten percent of liabilities, \$16,239,896, as required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**PROGRESSIVE SELECT INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2007, per Annual Statement				<u>\$69,209,230</u>
	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>	
ASSETS:				
No adjustment				
LIABILITIES:				
No adjustment				
Net Change in Surplus:				<u>0</u>
Surplus as Regards Policyholders December 31, 2007, Per Examination				<u><u>\$69,209,230</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

There were no material findings or corrective actions to be taken with regard to the previous examination report as of December 31, 2003.

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2007.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Progressive Select Insurance Company** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$69,209,230 and in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Frank Jones, Reinsurance/Financial Specialist and the financial examiners assigned from the Ohio Department of Insurance, participated in the examination.

Respectfully submitted,

Richard Shaffer
Financial Specialist
Florida Office of Insurance Regulation

Mary M. James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation