EXAMINATION REPORT

OF

PROGRESSIVE PROPERTY INSURANCE COMPANY

NAIC Company Code: 13038

St. Petersburg, Florida
as of
December 31, 2017

BY THE

FLORIDA

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

April 10, 2019

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners ("NAIC"), we have conducted an examination as of December 31, 2017, of the financial condition and corporate affairs of

Progressive Property Insurance Company
1 ASI Way
St. Petersburg, Florida 33702

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, 2016 through December 31, 2017 and commenced with planning at the Florida Office of Insurance Regulation ("Office") on April 24, 2018 to April 26, 2018. The fieldwork commenced on April 24, 2018, and concluded as of April 10, 2019. The Company's last full scope examination by representatives of the Office covered the period January 1, 2012 through December 31, 2015.

The examination was a coordinated multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively. The lead state for this examination was Ohio. States that participated in this examination are as follows: California, Delaware, Florida, Illinois, Indiana, Louisiana, Michigan, New Jersey, New York, Texas, and Wisconsin.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles ("SSAP").

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements.

Notice of Change in Director or Officer

The Company did not file a notice of change in director or officer' with the Office within 45 days of an addition or removal of an officer or director, in compliance with Section 628.261, Florida Statutes.

Previous Examination Findings

The following is an update on other significant regulatory information disclosed in the previous examination.

Capital Stock

The Company's reported par value or per share of common capital stock was not in compliance with Section 628.081(d), Florida Statutes.

Resolution: On May 30, 2017 and August 1, 2017 respectively, the Company amended its stock certificate and Article III of the Articles of Incorporation to change the maximum number of common stock shares to 25,000 having a par value of $100 per share.

Designation of Independent Certified Public Accountant

The Company did not file the Independent Certified Public Accountant issued "Awareness Letter" with Office in compliance with Rule 69O-137.002(6)(a)(b), Florida Administrative Code.

<u>Resolution</u>: The Company timely filed the "Awareness Letter" with the Office in 2016. The "Awareness Letter" was not timely filed in 2017 and 2018.

COMPANY HISTORY

General

The Company is a Florida domiciled property-casualty insurer writing insurance policies through its Managing General Agent ("MGA"), Ark Royal Underwriters ("ARU"). ARU, in turn, contracts with a vendor, ASI Underwriters Corp. ("ASIU"), to issue insurance policies through a network of independent agents. Through a claims management services agreement, the Company contracts with ASIU to handle claims adjustment and claims payment services for the Company.

On April 1, 2015, the Company's parent, ARX Holding Corp. ("ARX"), entered into a Stock Purchase Agreement with The Progressive Corporation ("Progressive"). Per the terms of the agreement, Progressive acquired approximately sixty-three & two tenths percent (63.2%) of the outstanding capital stock of ARX through the purchase of the common and preferred stock of XL Re Ltd., Flexpoint Fund, LP and other non-management individuals and entities. Subsequently, in 2015, Progressive purchased additional ARX stock from certain employee shareholders and option holders, bringing its ownership of ARX stock from certain employee shareholders and option holders, bringing its ownership of ARX to sixty-nine and one hundredth percent (69.01%).

On June 1, 2016, ARX entered into a securities exchange agreement with Ark Royal Holding, LLC, parent holding company of the Company, whereby, ARX exchanged American Capital Assurance Corp. and Safe Harbour Underwriters, LLC for the Company and ARU. As a result of the aforementioned transaction, the Company's Board of Directors and Senior Officers changed to reflect the change in ownership and management. The Company also entered into new affiliated and third-party agreements as a result of ARX acquiring the Company.

The Company changed its name from Ark Royal Insurance Company to Progressive Property Insurance Company effective April 1, 2017.

The Company was incorporated in Florida on April 6, 2007, and commenced business on March 17, 2008.

Dividends

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2017 in the amount of $4,000,000. The Company did not declare or pay any dividends during 2016.

Capital Stock and Capital Contributions

As of December 31, 2017, the Company's capitalization was as follows:

Number of authorized common capital shares	25,000
Number of shares issued and outstanding	25,000
Total common capital stock	$2,500,000
Par value per share	$100.00

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

Acquisitions, Mergers, Disposals, Dissolutions

The Company had no acquisitions, mergers, disposals, or dissolutions during the period of this examination.

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2017, are shown below:

Directors		
Name	**City, State**	**Principal Occupation, Company Name**
John Franklin Auer (a)	St. Petersburg, Florida	President & Treasurer, American Strategic Insurance Corp.
Patrick Kevin Callahan (b)	Chardon, Ohio	Insurance Executive, The Progressive Corporation
Brian Charles Domeck[1]	Hunting Valley, Ohio	Former Chief Financial Officer, The Progressive Corporation
Marc Steven Fasteau (b)	New York, New York	Investment Banker, Fulcrum Partners, LLC
Glenn Morris Renwick (b)	Chagrin Falls, Ohio	Executive Chairman of the Board, The Progressive Corporation

[1] Chairman

(a) Retired on April 1, 2018 and was replaced by David Pratt as President on April 1, 2018.
(b) As of April 3, 2018, Patrick Callahan, Marc Fasteau and Glenn Renwick were no longer on the Board. They were replaced by David Pratt, Kevin Milkey and Tanya Fjare.

In accordance with the Company's Bylaws, the Board of Directors ("Board") appointed the following Senior Officers:

Senior Officers		
Name	**City, State**	**Title**
John Franklin Auer (a)	St. Petersburg, Florida	President and Treasurer
Angel Dawn Conlin (d)	Tampa, Florida	Vice President, Secretary and General Counsel
Kevin Robert Milkey	St. Petersburg, Florida	Executive Vice President
Philip Loren Brubaker (b)	St. Petersburg, Florida	Vice President
Tanya Judith Fjare	St. Petersburg, Florida	Vice President
Mary Frances Fournet (e)	St. Petersburg, Florida	Vice President
Jeffrey William Hannon (c)	St. Petersburg, Florida	Vice President
Trevor Clark Hillier (d)	St. Petersburg, Florida	Vice President
Patrick Thomas McCrink	Tampa, Florida	Vice President

(a) Retired in April 2018 and was replaced by David Pratt as President effective April 3, 2018.
(b) Philip Brubaker left the Company effective August 17, 2018.

(c) Jeffrey Hannon was removed as an officer effective April 3, 2018.
(d) No longer with the Company effective February 15, 2019.
(e) No longer with the Company effective April 3, 2018.

The Company did not file a notice of change in director or officer with the Office within 45 days, in compliance with Section 628.261, Florida Statutes.

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

Audit Committee		
Name	**City, State**	**Title, Company Name**
Brian Charles Domeck [(1)]	Hunting Valley, Ohio	Former Chief Financial Officer, The Progressive Corporation
Glenn Morris Renwick[(a)]	Chagrin Falls, Ohio	Executive Chairman of the Board, The Progressive Corporation
Marc Steven Fasteau[(a)]	New York, New York	Investment Banker, Fulcrum Partners, LLC

[1] Chairman

[a] As of April 3, 2018, Glenn Renwick and Marc Fasteau were no longer on the Audit Committee. They were replaced by David Pratt, Kevin Milkey and Tanya Fjare.

Holding Company System

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

Agreement to File Consolidated Federal Income Tax Returns

Effective June 1, 2016, the Company entered into an agreement to file consolidated federal income tax returns with its parent, ARX, and its affiliates. The agreement provides that ARX and its subsidiaries file consolidated federal income tax returns for such periods of time during which ARX and the subsidiaries are qualified to file. ARX and the subsidiaries agree to make all computations and settlements of the respective federal income tax liabilities of each company that is a party to the agreement. The method of allocation between the companies is subject to written agreement, and approved by the Board whereby allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. Receivable (payable) tax balances are to be settled within 90 days of tax payment.

Joint Servicing (Cost Allocation) Agreement

Effective January 1, 2016, the Company along with its parent, ARX, and its affiliates entered into a Joint Servicing (Cost Allocation) Agreement with Progressive Casualty Insurance Company ("PCIC"). The agreement provides that PCIC may provide services and facilities that will complement the operations and provide quality services and products to the Company's customers. Additionally, the Company may have the capacity to provide, from time to time, services to PCIC and its affiliates. The initial term of the agreement was one year, which automatically renews for consecutive one-year terms.

Intercompany Settlement Agreement

Effective June 1, 2016, the Company and ARU entered into an Intercompany Settlement Agreement with its parent, ARX and its affiliates. The agreement states that the companies are related parties through common ownership with ARX and that in the ordinary course of business it may become feasible for one company to pay expenses on behalf of another company. The companies mutually agree to submit a bill once a month for any expenses incurred on behalf of another and shall remit payment in full no later than 90 days after receipt.

Investment Management Agreement

Effective June 1, 2016, the Company was added to the Investment Management Agreement with ARX and its affiliates and Progressive Capital Management Corporation ("PCM"). The agreement provides that PCM will manage the Company's investment portfolio in accordance with the Company's investment guidelines. The agreement also provides that PCM will provide investment accounting services and assist in preparing the Company's statutory Schedule D. Management fees are assessed based on a percentage of the value of the investment portfolio as of the last trading day of the month.

Managing General Agent Agreement

Effective September 4, 2007, the Company entered into an MGA Agreement with its affiliate, ARU, for the production servicing and acceptance of business written in the State of Florida. The agreement was originally for a one-year term and automatically renews each successive year, unless otherwise terminated within the guidelines of the agreement. For underwriting and premium processing, the Company paid a twenty-one percent (21%) commission on written premium, plus a new business and renewal business fee per policy of $25. Commission costs incurred under this agreement for 2016 and 2017 amounted to $19,764,845 and $22,696,722, respectively, and MGA fees incurred under this agreement for 2016 and 2017 amounted to $2,029,600 and $2,421,750, respectively.

Claims Management Services Agreement

Effective October 3, 2007, the Company entered into a Claims Management Services Agreement with ASIU for claims administration and management services. The Company paid a monthly commission based on five percent (5%) of non-catastrophe paid losses and one percent (1%) for catastrophe paid losses for claims processing. Claim processing costs incurred under this agreement for 2016 and 2017 amounted to $1,297,169 and $1,559,625, respectively.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in St. Petersburg, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Citibank N.A. executed on December 31, 2015. The agreements complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, PricewaterhouseCoopers LLP, audited the Company's statutory basis financial statements annually for the years 2016 and 2017, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

Corporate Records Review

The recorded minutes of the Shareholders, Board and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments, as required by Section 625.304, Florida Statutes.

Conflict of Interest

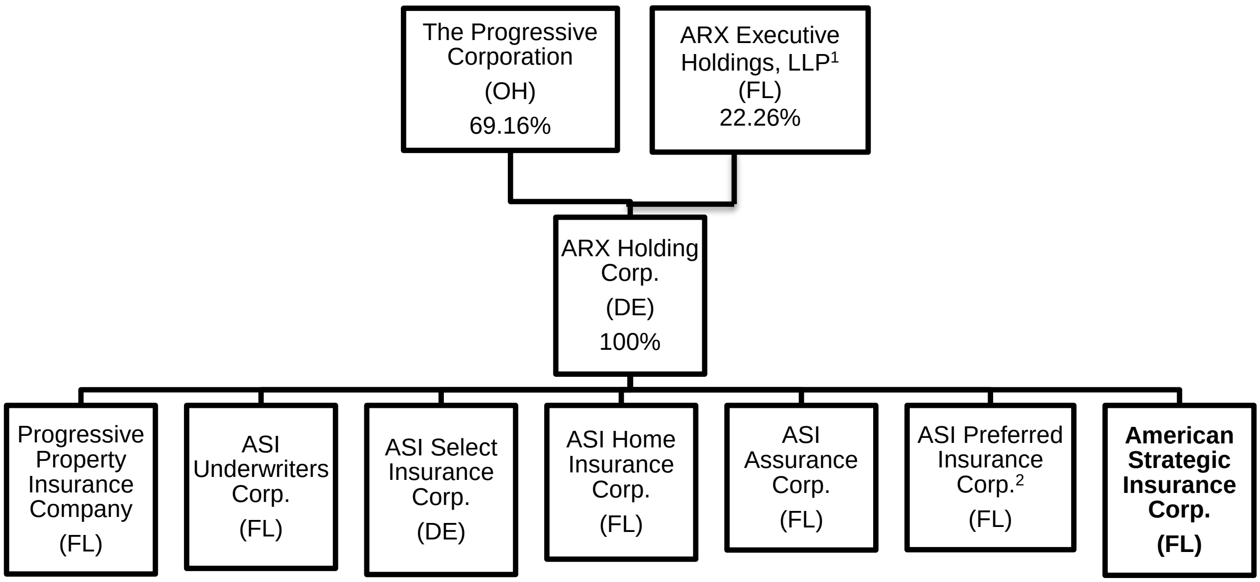
The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

A simplified organizational chart as of December 31, 2017, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2017 annual statement provided a list of all related companies of the holding company group.

Progressive Property Insurance Company

Simplified Organizational Chart

December 31, 2017



[1] John F. Auer was a General Partner of ARX Executive Holdings, LLP at December 31, 2017.
[2] ASI Preferred Insurance Corp. was 60% owned by ARX Holding Corp. and 40% owned by American Strategic Insurance Corp. at December 31, 2017.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Florida	Louisiana	Texas

The Company was authorized to transact insurance coverage in Florida on November 9, 2007 was authorized for the following coverages as of December 31, 2017.

Fire	Inland Marine
Allied Lines	Other Liability
Homeowners Multi-Peril	

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)(3)(a), 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)(j), Florida Statutes.

REINSURANCE

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

Reinsurance Assumed

The Company did not assume any reinsurance during the period of this examination.

Reinsurance Ceded

The Company's reinsurance program covers the Company and its insurer affiliates as the companies are multi-cedents on all reinsurance contracts. The Company and its affiliates ceded risk on an excess of loss basis, excess per risk, aggregate shared limit and aggregate stop loss. The excess of loss treaty is supplemented by a catastrophe bond and the Florida Hurricane Catastrophe Fund.

On June 1, 2016, the Company and its insurer affiliates entered into several multiple-layer property catastrophe excess of loss reinsurance contracts with various reinsurers with terms ranging from one to three years. The Company's minimum commitment under these contracts was $15,600,000 as of December 31, 2017.

INFORMATION TECHNOLOGY REPORT

Mohammad Arif, CFE, AES, CISA, CIDM, CISSP and Barbara Chairez, CPA, CISA, both from the Ohio Department of Insurance, the Lead State, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report.

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	Book/Adjusting Carrying Value	Fair Value
FL	$353,919	$334,723
TOTAL FLORIDA DEPOSITS	$353,919	$334,723
LA	$114,503	$108,293
TOTAL OTHER DEPOSITS	$114,503	$108,293
TOTAL SPECIAL DEPOSITS	$468,422	$443,016

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Office, are reflected on the following pages.

Progressive Property Insurance Company

Assets

December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Bonds	$71,527,873		$71,527,873
Cash and Short-Term Investments	3,870,643		3,870,643
Agents' Balances:			
Uncollected premium	138,522		138,522
Deferred premium	1,820,313		1,820,313
Reinsurance recoverable	12,515,581		12,515,581
Interest and dividend income due & accrued	446,890		446,890
Receivable from parents, subsidiaries and affiliates	249,991		249,991
Net deferred tax asset	1,148,941		1,148,941
Totals	$91,718,754	$0	$91,718,754

Progressive Property Insurance Company

Liabilities, Surplus and Other Funds

December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Losses	$10,197,158		$10,197,158
Loss adjustment expenses	1,252,863		1,252,863
Other expenses	246,087		246,087
Taxes, licenses and fees	400,812		400,812
Current federal income taxes	1,161,282		1,161,282
Unearned premium	25,633,769		25,633,769
Advance premium	2,664,179		2,664,179
Ceded reinsurance premiums payable	2,033,586		2,033,586
Funds held by company under reinsurance	22,197		22,197
Payable to parent, subsidiaries and affiliates	5,803,888		5,803,888
Aggregate write-ins for liabilities	688,762		688,762
Total Liabilities	$50,104,583	$0	$50,104,583
Common capital stock	$2,500,000		$2,500,000
Gross paid in and contributed surplus	7,650,000		7,650,000
Unassigned funds (surplus)	31,464,171		31,464,171
Surplus as regards policyholders	$41,614,171	$0	$41,614,171
Total liabilities, surplus and other funds	$91,718,754	$0	$91,718,754

Progressive Property Insurance Company

Statement of Income

December 31, 2017

Underwriting Income

Premiums earned	$37,997,290
Deductions:	
Losses incurred	$15,161,019
Loss expenses incurred	3,940,699
Other underwriting expenses incurred	13,091,124
Total underwriting deductions	$32,192,842
Net underwriting gain or (loss)	$5,804,448

Investment Income

Net investment income earned	$1,545,923
Net realized capital gains or (losses)	(117,155)
Net investment gain or (loss)	$1,428,768

Other Income

Net gain or (loss) from agents' or premium balances charged off	($1,571)
Finance and service charges not included in premiums	$191,433
Finance and service charges not included in premiums	55
Total other income	$189,917
Net income before dividends to policyholders and before federal & foreign income taxes	$7,423,133
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$7,423,133
Federal & foreign income taxes	1,544,113
Net Income	$5,879,020

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	$41,832,613
Net Income	$5,879,020
Change in net deferred income tax	(1,791,183)
Change in non-admitted assets	161,270
Dividends to stockholders	(4,000,000)
Aggregate write-ins for gains and losses in surplus	(467,549)
Change in surplus as regards policyholders for the year	($218,442)
Surplus as regards policyholders, December 31 current year	$41,614,171

Progressive Property Insurance Company

Reconciliation of Capital and Surplus

December 31, 2017

No adjustments were made to surplus as regards policyholders as a result of this examination.

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders			
December 31, 2015 per Examination			$42,988,369
Net Income (loss)	$3,613,083		
Change in net unrealized capital gain (loss)		$915,151	
Change in net deferred income tax	$553,021		
Change in non-admitted assets		$157,601	
Dividends to stockholders		$4,000,000	
Aggregate write-ins for gains and losses in surplus		$467,550	
Total Gains and Losses	$4,166,104	$5,540,302	
Net Increase/(Decrease) in surplus as regards policyholders			($1,374,198)
Surplus as regards policyholders			
December 31, 2017 per Examination			$41,614,171

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Gary S. Traicoff, FCAS, MAAA of the Progressive Insurance Group, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2017, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary Brent M. Sallay, FCAS, MAAA, of Taylor-Walker Consulting, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of $41,614,171, exceeded the minimum of $10,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

During 2018, Progressive increased its ownership of the outstanding ARX equity to eighty-six and eight-tenths (86.8%) from sixty-nine and one hundredth percent (69.01%) at December 31, 2017 through the purchase of additional stock.

Effective April 3, 2018, the Company became a party to Affiliate Agreement – Allocation of Federal Income Taxes with Progressive and participating affiliates.

On June 1, 2018, the Company entered into a new quota-share reinsurance agreement with ASIA, replacing an existing agreement whereby the Company cedes business to ASIA. The cession rate was increased from forty-five percent (45%) to fifty-five percent (55%) and the ceding commission was increased from twenty-seven percent (27%) to twenty-nine percent (29%).

Effective January 1, 2019, the Company, American Strategic Insurance Corp., ASI Assurance Corp., ASI Lloyds, Inc., ASI Preferred Insurance Corp., ASI Home Insurance Corp. and ASI Select Insurance Corp. ("the Companies") entered into an intercompany expense allocation agreement. The purpose of the agreement is to fairly distribute the costs associated with the overhead of the ASI Insurance Group across the Companies. The overhead services include, but are not limited to, administration, actuarial, finance and accounting, legal and human resources.

Effective January 1, 2019, the Company and five of its property and casualty insurance company affiliates participated in an intercompany pooling arrangement pursuant to which each company's property/casualty business, net of external reinsurance, is pooled and retroceded to participating affiliates in accordance with the following predetermined pool percentages:

Entity		Pooling Percentage
American Strategic Insurance Corp. (pool manager)		76.50%
ASI Lloyds, Inc.		17.00%
ASI Home Insurance Corp.		2.00%
ASI Select Insurance Corp.		2.00%
Progressive Property Insurance Company		2.00%
ASI Assurance Corp.		0.50%
	Total	100.00%

On December 18, 2018, the Company received an additional capital contribution of $2,500,000 from ARX.

SUMMARY OF RECOMMENDATIONS

Notice of Change in Director or Officer

We recommend the Company file a notice of change in director or officer with the Office within 45 days of an addition or removal of an officer or director, in compliance with Section 628.261, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Progressive Property Insurance Company** as of December 31, 2017, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards to policyholders was $41,614,171, which exceeded the minimum of $10,000,000 required by Section 624.408, Florida Statutes.

Susan Carroll, CFE	Examiner-in-Charge	Examination Resources, LLC
Marie Stuhlmuller	Examination Manager	Office
Wytonia Dennis	Participating Examiner	Office
Brent Sallay, FCAS, MAAA	Exam Actuary	Taylor-Walker Consulting, LLC
Solomon Frazier, FCAS, MAAA, FSA	Exam Actuary	Taylor-Walker Consulting, LLC
Mohammad Arif, CFE, AES, CISA, CIDM, CISSP	IT Specialist	Ohio Department of Insurance
Barbara Chairez, CPA, CISA	IT Specialist	Ohio Department of Insurance

Respectfully submitted,

Brian Sewell

Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation