

REPORT OF MARKET REGULATION EXAMINATION



Progressive Northwestern Insurance Company

NAIC Code 42919

Progressive Northern Insurance Company

NAIC Code 38628

Progressive Direct Insurance Company

NAIC Code 16322

Progressive Casualty Insurance Company and

NAIC Code 24260

Progressive Premier Insurance Company of Illinois

NAIC Code 21735

6300 Wilson Mills Rd
Cleveland, OH 44101-6490

NAIC Examination Tracking System ME114-M1

Examination Period:

January 1, 2006, through March 31, 2009

Pursuant to Title 24-A M.R.S.A. § 221, I have caused a Targeted Market Conduct Examination to be conducted of Progressive Northwestern Insurance Company, Progressive Northern Insurance Company, Progressive Direct Insurance Company, Progressive Casualty Insurance Company and Progressive Premier Insurance Company of Illinois. I hereby accept this Report of Examination and make it an official record of the Bureau of Insurance.



Eric A. Cioppa
Acting Superintendent of Insurance
Maine Bureau of Insurance

June 3, 2011
Date

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June 3, 2011

The Honorable Eric A. Cioppa
Acting Superintendent of Insurance
Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Sir:

Pursuant to Title 24-A M.R.S.A. §§ 211 and 221 and in accordance with your instructions, a targeted examination has been made of:

**Progressive Northwestern Insurance Company, Progressive Northern Insurance Company,
Progressive Direct Insurance Company, Progressive Casualty Insurance Company and
Progressive Premier Insurance Company of Illinois**

hereinafter referred to collectively as the "Company."

This examination consisted of a review of the Company's Maine third party bodily injury claims that were open during the period from January 1, 2006, through March 31, 2009. The Maine Bureau of Insurance ("Bureau") staff conducted the on-site phase of the examination at the Company's offices located at:

6300 Wilson Mills Rd
Cleveland, OH 44101-6490

The examination work was also performed at the offices of the Bureau. The examination is as of March 31, 2009.

The following report is respectfully submitted.

EXECUTIVE SUMMARY

This examination was called in response to public testimony relating to a bill, LD-1305 which proposed the creation of a right of action against insurance companies by third-party claimants for unfair claims practices. The focus of the examination was to determine whether Company representatives coerced injured parties into signing a release while they were hospitalized.

To accomplish the foregoing, the examiners selected a random sample of sixty (60) claim files from a population of 9,550 bodily injury claims. The files were selected based on the examination criteria, as is more fully explained in the Methodology section of this report.

For the sample of sixty (60) claim files that were reviewed, the examination revealed the following findings:

- No evidence of improper adjuster activity was identified as none of the claimants in the sample were contacted while hospitalized,
- Fifty-seven (57) claims were settled with a release,
- Fifty-nine (59) claims reflected liability adverse to the Company,
- Fifty-seven (57) claim files were adequately documented and,
- In response to a request for disclosure of any and all regulatory actions, the Company failed to disclose a market conduct investigation that had been completed in another state.

HISTORY

The Progressive Corporation was incorporated as an insurance holding company in 1965, but the Progressive insurance organization began business in 1937. Through its fifty-eight (58) subsidiaries and one (1) mutual insurance company, they provide personal and commercial automobile insurance and other specialty property-casualty insurance and related services. Primarily, the Company's lines are related to motor vehicles, but they also offer other personal and commercial property-casualty products. The Company does business in all 50 states and the District of Columbia.

SCOPE OF EXAMINATION

This examination is a targeted market conduct examination. The purpose of this targeted examination is to determine the Company's compliance with the Maine statute concerning claims handling, 24-A M.R.S.A § 2164-D Unfair Claims Practices. Specifically, the sample was drawn from the Company's Maine third party bodily injury claims that were open during the period from January 1, 2006, through March 31, 2009. This report is by test rather than by exception. This means that each test applied is stated, and the results are reported.

All claims in the sample were handled by staff adjusters. The examination included a review of the Company's claim procedural manual and related Company materials pertaining to the handling of bodily injury claims. The claim procedural manual contains well-defined procedures for contacting the claimant and interested parties in the investigation and settlement of claims. No deviations from these procedures were observed in the files reviewed.

The adjuster training materials were provided by the Company subsequent to the on-site exam. A review of the materials determined them to be in compliance with applicable statutes. The materials emphasized the importance of timely initial contact to establish rapport with the claimant(s). The time frame and location of this initial contact was not addressed in the training materials.

Some unacceptable or non-compliant practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not constitute acceptance of such practices by the Bureau.

METHODOLOGY

The random sample of sixty (60) files, out of a total population of 9,550 bodily injury claims, was selected through Automated Command Language (“ACL”) software. The total population of 9,550 claim files was narrowed so that all files in the sample would be: 1) open for less than seven days and 2) settled for exactly \$500.

STANDARDS

The following standards were the basis for developing the examination procedure. The statute in question, Title 24-A M.R.S.A § 2164-D, states in pertinent part:

2. Prohibited activities. It is an unfair claims practice for any domestic, foreign or alien insurer transacting business in this State to commit any act under subsection 3 if:

- A. It is committed in conscious disregard of this section and any rules adopted under this section;
or
- B. It has been committed with such frequency as to indicate a general business practice to engage in that type of conduct.

3. Unfair practices. Any of the following acts by an insurer, if committed in violation of subsection 2, constitutes an unfair claims practice:

- A. Knowingly misrepresenting to claimants and insureds relevant facts or policy provisions related to coverage at issue;
- B. Failing to acknowledge with reasonable promptness pertinent written communications with respect to claims arising under its policies;
- C. Failing to adopt and implement reasonable standards for the prompt investigation and settlement of claims arising under its policies;
- D. Failing to develop and maintain documented claim files supporting decisions made regarding liability;
- E. Refusing to pay claims without conducting a reasonable investigation;
- F. Failing to affirm coverage or deny coverage, reserving any appropriate defenses, within a reasonable time after having completed its investigation related to a claim;
- H. Making claim payments to an insured or beneficiary without indicating the coverage under which each payment is being made;
- J. Failing, in the case of claims denials or offers of compromise settlement, to promptly provide an accurate written explanation of the basis for those actions;

EXAMINATION FINDINGS

A. Company Operations/Management

Standard A-9

The regulated entity cooperates on a timely basis with examiners performing the examinations.

NAIC Market Regulation Handbook - Chapter XVI, Section A, Standard 9

Title 24-A M.R.S.A § 220

Title 24-A M.R.S.A § 223

Findings: The examination revealed, in certain areas that Company representatives did not cooperate on a timely basis with examiners.

Pursuant to the Bureau's "Claim Data Request," the Company was asked to provide: "A list of all internal or external audits or examinations of the Companies' claims-handling by date, period of examination, name and scope of examination conducted since January 1, 2006. Please include each audit's or examination's principal findings. This data request includes audits or examinations of independent adjusters or adjusting firms engaged by any of the Companies."

The Company's response revealed the activity of several states, but neglected to disclose a market conduct examination conducted by the state of New Hampshire that was in progress during the examination period. The New Hampshire market conduct examination was focused on essentially the same questionable claims handling practices for which the Bureau had initiated its examination. The examiners discovered the New Hampshire Market Conduct Examination as of December 31, 2005, independently. The New Hampshire exam focused on claims settlement practices and resulted in a report made final by Order of the New Hampshire Commissioner dated June 2, 2009.

In addition, the examiners requested that complete claim files to be provided for the on-site exam. However, the claim files were not complete; the medical portion of the file was not provided to the examiners on-site. Further, completed files were only provided after several requests by the examiners.

G. Claims

Standard G-5

Claim files are adequately documented.

NAIC Market Regulation Handbook - Chapter XVI, Section G, Standard 5

Title 24-A M.R.S.A § 2164-D

Transactional Testing Procedure: Examiners reviewed the Company's claim files.

Findings: None.

The examination revealed documentation adequate to demonstrate compliance with statutes and/or regulations.

Standard G-11

Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

NAIC Market Regulation Handbook - Chapter XVI, Section G, Standard 11

Title 24-A M.R.S.A § 2164-D

Transactional Testing Procedure: Examiners reviewed the Company's claim files.

Findings: The examination revealed that none of the claimants in the sample were seen in the hospital.

ACKNOWLEDGMENT

The courtesy, hospitality and cooperation extended by the officers and employees of the Company during the course of the examination are gratefully acknowledged. The examination was conducted and is respectfully submitted by the undersigned.

STATE OF MAINE

COUNTY OF KENNEBEC, SS


Allan C. Armstrong, Examiner in Charge, being duly sworn according to law, deposes and says that in accordance with the authority vested in him by Eric A. Cioppa, Acting Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, he has made an examination on the condition and affairs of the

**Progressive Northwestern Insurance Company, Progressive Northern Insurance Company,
Progressive Direct Insurance Company, Progressive Casualty Insurance Company and
Progressive Premier Insurance Company of Illinois**

as of March 31, 2009, and that the foregoing report of examination, subscribed to by him, is true to the best of his knowledge and belief.

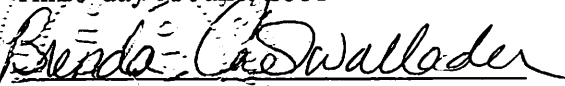
The following examiners from the Bureau of Insurance assisted:

Carolee M. Bisson AIRC, AIE
Mary Masi, MCM
Linette Gamache, CIC

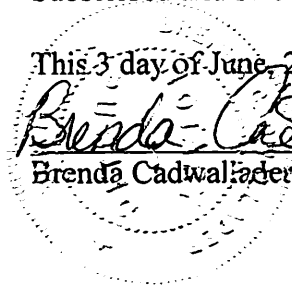


Allan C. Armstrong, CWCLA, MCM
Market Conduct Division Manager

Subscribed and sworn to before me

This 3 day of June, 2011


Brenda Cadwalader, Notary Public



My commission expires: 10/21/2014

DECLARATION

I hereby declare that the above is a true and correct copy of the original as submitted to me by the applicant.

Signature of the Officer

Date

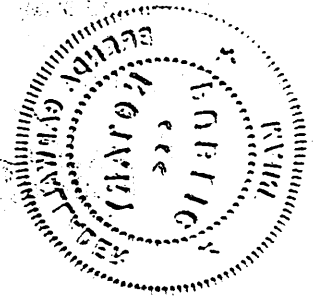
I hereby declare that the above is a true and correct copy of the original as submitted to me by the applicant.

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Signature of the Officer



Signature of the Applicant

ADDENDUM

As to Standard A-9, for which the examination revealed, in certain areas the Company representatives did not cooperate on a timely basis with examiners, the Company has provided the following response:

“Progressive acknowledges it did not disclose the New Hampshire Market Conduct Examination. However, our interpretation of the request was to include audits that had been concluded. Progressive entered into a consent order with the New Hampshire Department on November 24, 2009. At the time the Company responded to the bureau’s request, the examination had not yet concluded.

Progressive was not questioned by the examiners about the New Hampshire examination during or after the on-site portion of this examination, and were not aware of the examiner’s concerns until receipt of the draft report. If Progressive had known of the examiner’s concern we would have provided the necessary information once the New Hampshire exam had concluded. This was a misunderstanding of what was being requested. We apologize for any inconvenience this may have caused the examiners and the Bureau, but respectfully request this finding be removed from the report.

In regards to the request for complete claims files, Progressive acknowledges it initially failed to include some of the medical documentation in its files. This was an oversight, but upon learning of missing medical documentation, Progressive immediately began retrieving those documentation files from another out of state Progressive site as well as from long term off-site storage, and shipped those files to the examiners. We recognize that this caused a delay for the examiners and apologize for this oversight. Progressive cooperated with the examiners in getting these files as quickly as possible. We respectfully request that this finding be removed from the report.

Progressive values a strong, cordial working relationship with the Bureau. We are committed to providing the best possible experience for our Maine customers and look forward to working with the Bureau to improve that experience whenever possible. Progressive would like to thank the Bureau and the examiners for their cooperation and professionalism throughout the course of the examination.”