REPORT ON EXAMINATION

OF THE

PROGRESSIVE NORTHEASTERN INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT	FEBRUARY 19, 2009
EXAMINER	DENNIS J. MCGOVERN

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

February 19, 2009

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30214 dated October 7, 2008 attached hereto, I have made an examination into the condition and affairs of Progressive Northeastern Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Progressive Northeastern Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company‘s administrative offices located at 6300 Wilson Mills Road, W33 Cleveland Ohio 44143-2182.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Progressive Northeastern Insurance Company. The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook, which requires that we plan and perform the examination 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, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment assessment and evaluation based upon the Company's Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination is part of the coordinated examination of the Progressive Insurance Group being conducted by the Ohio Department of Insurance ("ODOI"). The examination was conducted in accordance with the proposed risk focused procedures and guidelines prescribed by the National Association of Insurance Commissioners. This examination, for common subject matter, has relied on ODOI to identify the risk classifications and inherent risk of key functional activities. ODOI was also responsible for preparation of matrices that have identified the controls and risk mitigation strategies. Finally, ODOI has determined the residual risk and prepared substantive test procedures where deemed necessary.

The Department examiners were responsible for identifying those issues that were required by the New York Insurance Law. In addition, substantive procedures were performed where the Department examiners deemed necessary.

ODOI has created a file that will contain all documents relating to the Group's business and all documents relating to subject matter common to all companies. All participating states were given copies of the files upon completion of the examination.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated on September 28, 1992 under the name, Paragon Insurance Company of New York ("Paragon"). Paragon is wholly-owned by The Progressive Corporation, an Ohio domiciled holding company.

On September 19, 1994, Paragon Insurance Company of New York's name was changed to Progressive Northeastern Insurance Company. The name change was submitted to and approved by this Department.

Capital paid in is $20,910,500, consisting of 804.25 shares of $26,000 par value per share common stock. Gross paid in and contributed surplus is $26,620,675. Capital paid in increased by $19,910,500, and gross paid in and contributed surplus decreased by $25,479,325 during the examination period, as follows:

Year		Common Capital Stock	Gross Paid In and Contributed Surplus
1/1/2003	Opening balance	$1,000,000	$52,100,000
2003	Surplus contribution		6,000,000
2007	Increase in par value of capital stock	25,000,000	(25,000,000)
2007	Stock redemption and retirement (195.75 shares)	(5,089,500)	(6,479,325)
12/31/2007	Ending balance	$20,910,500	$26,620,675

The $6,000,000 surplus contribution was received from the Company's ultimate parent, The Progressive Corporation, and was funded by the payment of a dividend by an affiliate, National Continental Insurance Company, to its parent. In 2007, the Company increased the par value of its 1,000 outstanding shares of capital stock from $1,000 per share to $26,000 per share. Additionally, the Company returned surplus to its parent in the amount of $12,000,000 through the retirement and redemption of 195.75 shares of its common stock. The $12,000,000 was allocated as follows: $6,479,325 from Gross paid in and contributed surplus, $5,089,500 from Common capital stock, and $431,175 from Unassigned funds.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of thirteen members. The board met four times during each calendar year. At December 31, 2007, the board of directors was as follows:

Name and Residence	Principal Business Affiliation
Karen M. Barone Solon, OH	General Manager, Progressive Group
Patricia O. Bemer Highland Heights, OH	HR Business Leader, Progressive Group
Michael R. Beney Camillus, NY	Regional Manager, Progressive Group
Richard R. Crawley Stow, OH	Director Auto Product R&D, Progressive Group
James M. DeVito Shaker Heights, OH	Product Manager, Progressive Group
Christopher J. Garson Cleveland Heights, OH	IT Business Leader, Progressive Group
Steven (NMN) Gellen * Chagrin Falls, OH	Claims Process Development Manager, Progressive Group
Thomas H. Hollyer Chagrin Falls, OH	National Product Development Leader, Progressive Group
William R. Kampf Moreland Hills, OH	Marketing General Manager, Progressive Group
James L. Lloyd * Stow, OH	General Manager, Progressive Group
Mark D. Niehaus Granite Bay, CA	General Manager, Progressive Group
Victor (NMN) Politzi Loudonville, NY	New York and New Jersey State Manager, Progressive Group
David J. Skove Richmond, VA	General Manager, Progressive Group

* Subsequent to the examination date, these directors are no longer with the Company.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of Mark Niehaus who attended less than 50% of the meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

It was also noted on in Article II, Section 1 of the Company's by-laws require the Company to have an annual meeting immediately following the shareholder meeting. However, when the board minutes were reviewed, it was only noted in the second quarterly meeting as "Written Action of the Board of the Directors in Lieu of Annual Meeting".

It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its charter and or by-laws and maintain complete minutes of such proceedings.

As of December 31, 2007, the principal officers of the Company were as follows:

Name	Title
Victor (NMN) Politzi	President
Dane A. Shrallow	Secretary
Thomas A. King	Treasurer
Mary B. Andreano	Vice President
Michael R. Beney	Vice President
Kathleen M. Cerny	Assistant Secretary
Timothy F. Kaselonis	Assistant Vice President
James L. Kusmer	Assistant Treasurer

B. Territory and Plan of Operation

As of December 31, 2007, the Company was only licensed to transact business in the State of New York. The following schedule shows the direct premiums written by the Company both in total and in New York State for the period under examination:

Year	Direct Premiums Written	Direct Premiums Written in New York	New York Premiums as Percentage of Total Premiums
2003	595,261,232	595,261,232	100%
2004	692,730,690	692,730,690	100%
2005	707,496,233	707,496,233	100%
2006	655,412,775	655,412,775	100%
2007	430,277,328	430,277,328	100%

As of December 31, 2007, the Company was licensed to transact the kinds of business as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
12	Collision
13	Personal injury liability
14	Property damage liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Inland marine only
30	Substantially similar kinds of insurance

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirement of Articles 13 and 41 of the New York Insurance Law, Progressive Northeastern Insurance Company is required to maintain a minimum surplus to policyholders in the amount of $2,400,000.

The Company writes personal and commercial automobile liability and physical damage liability as well as selected specialty insurance coverages. Business is produced by independent agents and direct marketing within the state. The Progressive Group has over 30,000 independent agents throughout the country. Premiums are billed directly to the insured through a corporate billing system. Agency billing is not used. All funds are deposited via lockbox. There is a small amount of cash received by the agent usually for down payments; this cash is swept from the agent's account. There are no managing general agents and there are no retrospective compensation agreements.

The Company has no direct employees. The Company's operations are managed by Progressive Casualty Insurance Company ("PCIC") an affiliate of the Company.

The Company's business is currently in run-off. All New York new business will be written in other Progressive Group entities under a new rating plan.

C. Reinsurance

Assumed

As of the examination date, the Company had no assumed reinsurance contracts in force.

Ceded

All ceded reinsurance contracts in effect during the examination period were reviewed. All contracts contained the required standard clauses, including the insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Schedule F data contained in the Company's filed annual statements for the years covered by examination period was found to accurately reflect its reinsurance transactions.

A summary of the Company's ceded reinsurance in effect as of the examination date is as follows:

Quota Share Reinsurance Agreement

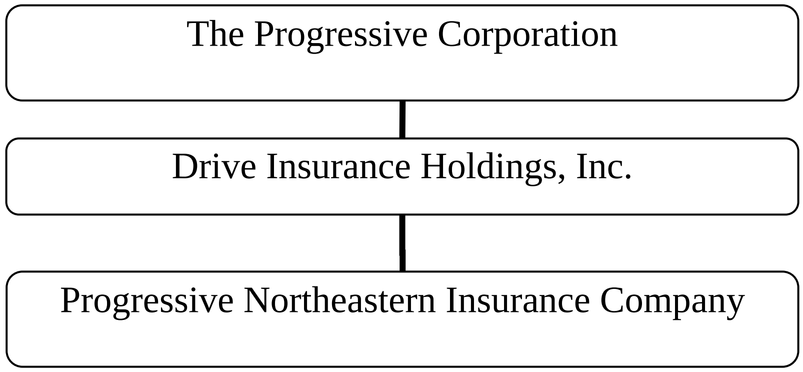
Effective July 1, 1995, the Company entered into a 90% quota share reinsurance agreement with an affiliate, Progressive Casualty Insurance Company ("PCIC"). Pursuant to the agreement, the Company ceded 90% of its premium, losses and loss adjustment expenses and underwriting expenses to PCIC after the effect of all other reinsurance agreements with non-affiliated companies. The Company retains 10% of its initial business.

D. Holding Company System

The Company is a member of the Progressive Group. The Company is wholly owned by Drive Insurance Holdings, Inc. ("DIH"), a Delaware corporation, which is ultimately controlled by The Progressive Corporation.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abbreviated chart of the holding company system at December 31, 2007:



The Company has entered into the following agreements with members of its holding company system, all of which have been found non-objectionable by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law:

1. <u>Reinsurance Agreement between Progressive Casualty Insurance Company and Progressive Northeastern Insurance Company (effective July 1, 1995)</u>

The Company entered into a 90% quota share reinsurance agreement with Progressive Casualty Insurance Company. Pursuant to the agreement the Company cedes 90% of its business to the reinsurer.

2. <u>Cash Management Agreement between Progressive Casualty Insurance Company and Progressive Northeastern Insurance Company and Certain Affiliates (effective January 1, 1998)</u>

This agreement provided for the Company's participation in the Progressive Casualty Insurance Company's central cash management system (cashier account) in which all the cash of the Progressive holding company system's companies are deposited. Pursuant to the agreement, Progressive Casualty Insurance Company is responsible in a fiduciary capacity for the Company's cash, and performs all the Company's duties and operations as they pertain to cash, including the payment of the Company's obligations.

3. Interest Agreement between Progressive Casualty Insurance Company and Progressive Northeastern Insurance Company and Certain Affiliates (effective April 6, 1994)

The Company became a participant to an existing interest agreement among the Progressive Casualty Insurance Company and members of the holding company system. Pursuant to the agreement, the Company agrees to pay Progressive Casualty Insurance Company or to receive credit from Progressive Casualty Insurance Company for any balances owed to Progressive Casualty Insurance Company or owed by Progressive Casualty Insurance Company as a result of the activity in the cashier account per the cash management agreement.

4. Investment Services Agreement between Progressive Capital Management Corp., Progressive Northeastern Insurance Company and Certain Affiliates (effective March 24, 1994)

Pursuant to this agreement, Progressive Capital Management Corp. provides investment management services to the Company as well as other affiliated members. Costs of the investment services are shared among the members of the holding company system.

5. Services Agreement between Progressive Casualty Insurance Company and Progressive Northeastern Insurance Company (effective April 12, 1993)

The Company entered into a service agreement with Progressive Casualty Insurance Company ("PCIC"). Pursuant to the agreement, the Company utilizes the personnel, property and facilities of PCIC. PCIC also provides services relating to the insurance operations, including administrative and record keeping for the Company. The Company reimburses PCIC for all its identifiable expenses. The expenses that are not identifiable are allocated based on formulas and factors consistent with the provisions of Department Regulation 30.

6. General Agency Agreement between ProgNY Agency, Inc., Progressive Northeastern Insurance Company and Certain Affiliates (effective August 14, 1996)

This agreement authorized ProgNY agency to sell insurance products for the Company.

7. General Agency Agreement between Progressive Alliances Insurance Agency, Inc. ("PAIA"), Progressive Northeastern Insurance Company and Certain Affiliates (effective December 1, 2006

This agreement authorized PAIA to sell insurance products for the Company in the states of California, Kentucky, Louisiana, Washington and such other states as the parties may agree upon from time to time.

8. Tax Allocation Agreement between The Progressive Corporation ("TPC"), Progressive Northeastern Insurance Company and Certain Affiliates (effective August 1, 2005)

The Company and other members of its holding company system entered into an income tax sharing agreement with The Progressive Corporation, whereby the companies file a consolidated federal income tax return.

9. Escrow Agreement between The Progressive Corporation ("TPC"), Progressive Investment Company Inc. ("PICI") and Progressive Northeastern Insurance Company (Effective March 23, 1994)

PICI has agreed to place and hold certain of its assets in escrow, when necessary to satisfy certain tax escrow obligations imposed upon the Company pursuant to New York Insurance Laws.

10. Licensing Agreement between Progressive Casualty Insurance Company ("PCIC") and Progressive Northeastern Insurance Company (Effective May 1, 2002)

The Company participates in a licensing agreement with PCIC for the purpose of using the trademarks of PCIC.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	84%	
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	141%	*
Premiums in course of collection to surplus as regards policyholders	26%	

The liabilities to liquid assets ratio falls outside the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. All of the above ratios fall within the benchmark ranges.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$203,751,227	65.43%
Other underwriting expenses incurred	69,288,302	22.25
Net underwriting gain	38,386,234	12.33
Premiums earned	$311,425,763	100.00%

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$106,478,331	$ 0	$106,478,331
Investment income due and accrued	1,964,283	0	1,964,283
Uncollected premiums and agents' balances in the course of collection	14,458,160	1,379,492	13,078,668
Deferred premiums, agents' balances and installments booked but deferred and not yet due	40,418,244	0	40,418,244
Amounts recoverable from reinsurers	80,366,832	0	80,366,832
Net deferred tax asset	2,413,298	408,684	2,004,614
Net premium tax deposits	314,773	0	314,773
Miscellaneous other assets	8,171	8,171	0
Total assets	$246,422,092	$1,796,347	$244,625,745

Liabilities, Surplus and Other Funds

Liabilities		
Losses		$ 23,391,525
Loss adjustment expenses		7,238,866
Commissions payable, contingent commissions and other similar charges		234,568
Other expenses (excluding taxes, licenses and fees)		150,662
Taxes, licenses and fees (excluding federal and foreign income taxes)		187,969
Current federal and foreign income taxes		565,314
Unearned premiums		10,056,390
Advance premium		3,456,054
Ceded reinsurance premiums payable (net of ceding commissions)		116,653,178
Drafts outstanding		20,234,892
Payable to parent, subsidiaries and affiliates		8,901,277
Other liabilities		958,266
Escheatable property		703,236
State plan liability		666,936
Total liabilities		$193,399,133
Surplus and Other Funds		
Common capital stock	$ 20,910,500	
Gross paid in and contributed surplus	26,620,675	
Unassigned funds (surplus)	3,695,437	
Surplus as regards policyholders		51,226,612
Total liabilities, surplus and other funds		$244,625,745

NOTE: The Internal Revenue Service has examined the PIC Federal Income Tax returns through the tax year ended December 31, 2005. Tax years 2004 and 2005 are complete except for one issue (Section 118), which is going through early appeals with a meeting set for April 2008. The examination of tax year 2006 is ongoing. We expect no material issues. The examination of tax year 2007 is part of the CAP real-time audit program and is ongoing. No material issues are expected.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $ 984,235 during the five year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income		
Premiums earned		$311,425,763
Deductions:		
Losses incurred	$158,725,388	
Loss adjustment expenses incurred	45,025,839	
Other underwriting expenses incurred	69,288,302	
Total underwriting deductions		273,039,529
Net underwriting gain or (loss)		$ 38,386,234
Investment Income		
Net investment income earned	$ 29,502,926	
Net realized capital gain	3,640,662	
Net investment gain or (loss)		33,143,588
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (3,013,483)	
Finance and service charges not included in premiums	65,742,821	
Aggregate write-ins for miscellaneous income	(54,969,338)	
Total other income		7,760,000
Net income before dividends to policyholders and before federal and foreign income taxes		$ 79,289,822
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$ 79,289,822
Federal and foreign income taxes incurred		16,493,762
Net income		$ 62,796,060

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2002			$50,242,377
Net income	$62,796,060		
Change in net deferred income tax		$2,148,911	
Change in nonadmitted assets	2,337,086		
Capital changes paid in	19,910,500		
Surplus adjustments paid in		25,479,325	
Dividends to stockholders		56,000,000	
Aggregate write-ins for gains and losses in surplus	0	431,175	
Total gains and losses	$85,043,646	$84,059,411	
Net increase (decrease) in surplus			984,235
Surplus as regards policyholders per report on examination as of December 31, 2007			$51,226,612

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $30,630,391 is the same as reported by the Company as of December 31, 2007. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal records and in its filed annual statements.

5. SUBSEQUENT EVENTS

During September 2008, The Progressive Corporation ("TPC") recognized $1.04 billion in net realized losses. TPC wrote down $1.1 billion in securities that were determined to have had an other-than-temporary decline in market value, primarily reflecting the continuing market-related issues associated with the disruption in the mortgage and other credit markets. In December 2008, TPC wrote down an additional $337.1 million in securities that were determined to have had an other-than-temporary decline in market value. Approximately 85%, or $283.5 million, of the write-downs were on securities held in insurance subsidiaries. The amount of write-downs TPC took for the entire year 2008 totaled $1.9 billion. Due to these market related issues, TPC has suspended its shareholders' dividend for 2008.

For the Company these “other than temporary impairments” resulted in $1,591,045 in write-downs for the third quarter 2008 and $1,662,391 for the entire year 2008.

6. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department. The general review was directed at practices of the Company’s complaint handling.

No problem areas were encountered.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained two recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Residual Market Premium	
	It is recommended that the Company properly report residual market premiums under the appropriate underwriting caption in future annual statement filings.	15
	The examiner notes that this recommendation has not been implemented by the Company. The Company believes that implementation of this recommendation would require a complete change to the corporate accounting policy and procedures. A further review indicates that these items are below our planning materiality level and no further investigation is required.	
B.	Certified Public Accountants	
	The engagement letter from the Company’s independent certified public accountants does not contain the following required provisions pursuant to the Part 89.2 of the Department Regulation 118.	13
	The Company has complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
i.	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	6
ii.	It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its charter and or by-laws and maintain complete minutes of such proceedings.	6

Respectfully submitted,

_______/S/___________
Dennis J. McGovern, CFE
Examiner in Charge

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

DENNIS J. McGOVERN, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

______________/S/____
Dennis J. McGovern

Subscribed and sworn to before me

this__________ day of ____________________, 2009.

Appointment No. 30214

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Dennis McGovern

as proper person to examine into the affairs of the

PROGRESSIVE NORTHEASTERN INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 7th *day of* October, *2008*

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★
EXCELSIOR

Eric Dinallo

ERIC R. DINALLO
Superintendent of Insurance