

REPORT ON EXAMINATION
OF
PURE INSURANCE COMPANY
WHITE PLAINS, NEW YORK

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	3
HISTORY	3
GENERAL	3
CAPITAL STOCK	4
PROFITABILITY OF COMPANY	4
DIVIDENDS TO STOCKHOLDERS	4
MANAGEMENT	5
CONFLICT OF INTEREST PROCEDURE	5
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	6
ORGANIZATIONAL CHART	7
OPERATING AGREEMENT	8
TAX ALLOCATION AGREEMENT	8
REINSURANCE POOLING AGREEMENT	8
FIDELITY BOND AND OTHER INSURANCE	8
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
STATUTORY DEPOSITS	9
INSURANCE PRODUCTS	9
TERRITORY	9
TREATMENT OF POLICYHOLDERS	9
REINSURANCE	10
ASSUMED	10
CEDED	10
ACCOUNTS AND RECORDS	10
CUSTODIAL AGREEMENT	11
INDEPENDENT AUDITOR AGREEMENT	11
INFORMATION TECHNOLOGY REPORT	11
FINANCIAL STATEMENTS PER EXAMINATION	12
ASSETS	13
LIABILITIES, SURPLUS AND OTHER FUNDS	14
STATEMENT OF INCOME	15

COMMENTS ON FINANCIAL STATEMENTS	16
LIABILITIES.....	16
CAPITAL AND SURPLUS	16
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	17
SUMMARY OF FINDINGS	18
CONCLUSION	19

Tallahassee, Florida

September 24, 2009

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

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 as of December 31, 2008, of the financial condition and corporate affairs of:

**PURE INSURANCE COMPANY
ONE NORTH LEXINGTON AVENUE
WHITE PLAINS, NEW YORK 10601**

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

SCOPE OF EXAMINATION

This examination covered the period of August 5, 2008, through December 31, 2008. This is a first year examination by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced with planning at the Office on July 20, 2009, to July 23, 2009. The fieldwork commenced on August 3, 2009, and concluded as of September 24, 2009.

This financial examination was a statutory financial examination 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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the

quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

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, 2008. Transactions subsequent to year-end 2008 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

This is a first year examination.

HISTORY

General

The Company was organized in Florida on August 5, 2008 and received their initial Certificate of Authority on October 16, 2008, as PURE Insurance Company.

The Company was initially capitalized with a \$50 Million contribution by Privilege Underwriters, Inc. and the assignment of \$34 Million in surplus notes from Privilege Underwriters Reciprocal Exchange. The \$34 Million was treated as a Non-Admitted Asset by the Company and on the Audited Financial Statement.

The Company was party to Consent Order 96894-08-CO, filed August 5, 2008, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with that order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Homeowners multi peril	Inland marine
Other liability	Private passenger auto physical damage
Private passenger auto liability	

Neither the Articles of Incorporation nor the Bylaws were amended during the period covered by this examination.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	1,500,000
Number of shares issued and outstanding	840,000
Total common capital stock	\$0
Par value per share	\$1.00

Control of the Company was maintained by its parent, Privilege Underwriters, Inc., a Delaware corporation, who owned 100% of the stock issued.

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.

	2008
Premiums Earned	1,952,771
Net Underwriting Gain/(Loss)	(3,676,096)
Net Income	(3,185,343)
Total Assets	53,519,423
Total Liabilities	6,911,731
Surplus As Regards Policyholders	46,607,692

Dividends to Stockholders

The Company did not pay dividends to its stockholders during the period under examination.

Management

The Company's Board of Directors (The Board) had not had its first meeting prior to December 31, 2008. The Board appointed upon formation of the Company and serving as of December 31, 2008, were:

Directors

Name and Location	Principal Occupation
John S. Baine Columbus, Ohio	Executive Nationwide Companies
Ross J. Buchmueller Larchmont, New York	President & CEO Pure Group Companies
James D. Carey Riverside, Connecticut	Principal Stone Point Capital, LLC
Peter M. Mundheim New York, New York	Principal Stone Point Capital, LLC
Nicholas D. Zerbib Larchmont, New York	Principal Stone Point Capital, LLC

Upon formation of the Company the following senior officers were appointed:

Senior Officers

Name	Title
Ross Buchmueller	President
Martin Hartley	Executive Vice President & COO
Jeffrey Paraschac	Senior Vice President & CFO

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

There were no Board meetings held during the period from the inception of the Company through December 31, 2008. Review of the minutes of the first meeting held in 2009 supports 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

The Company had no acquisitions, mergers, disposals, dissolutions or purchases or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no outstanding surplus debentures at December 31, 2008.

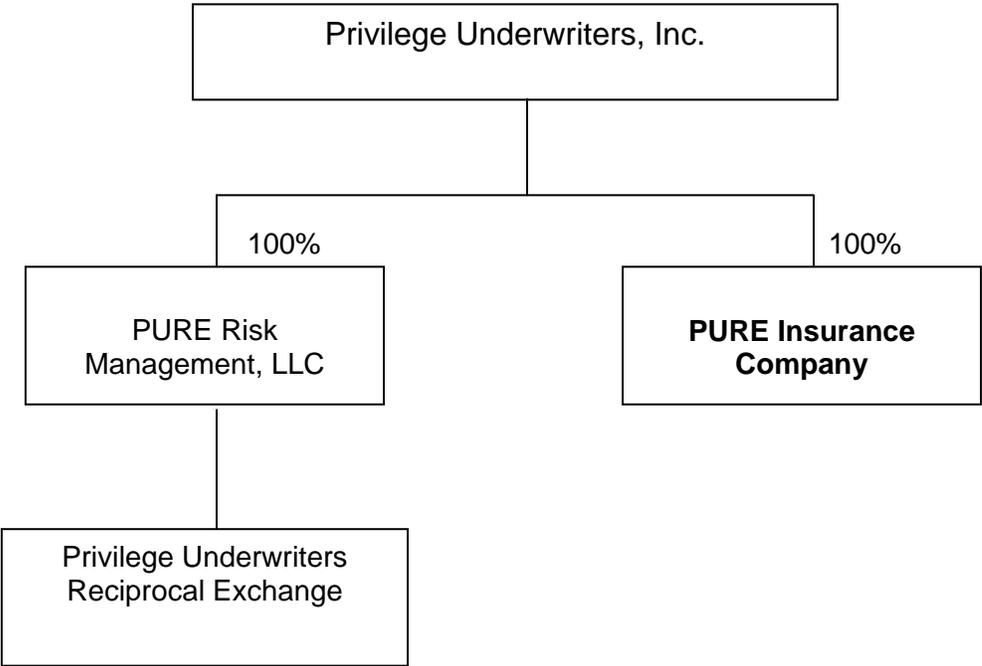
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on September 30, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding Company group.

**PURE INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2008



PURE Risk Management, LLC acts as Attorney-in-fact for Privilege Underwriters Reciprocal Exchange, (PURE).

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

Operating Agreement

The Company entered into an operating agreement, effective August 5, 2008, with Privilege Underwriters, Inc. (PUI); whereby PUI was to perform certain managerial and administrative functions for the Company. PUI was to be reimbursed for its actual expenses, including salaries of employees and other expenses incurred in performing the agree upon services.

Tax Allocation Agreement

The Company along with PUI, filed a consolidated federal income tax return. On December 31, 2008, the method of allocation between the Company and its parent was on a separate return basis.

Reinsurance Pooling Agreement

The Company was party to a reinsurance pooling agreement with PURE as noted in the reinsurance section.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$10,000, which reached the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance coverage limits of \$5,000,000 and deductibles ranging from \$25,000 to \$50,000. In addition to the primary D&O coverage, the Company had D&O liability limit excess amount up to \$20,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore had no pension, stock ownership or insurance plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Cash	<u>\$ 300,000</u>	<u>\$ 300,000</u>
	TOTAL FLORIDA DEPOSITS	<u>\$ 300,000</u>	<u>\$ 300,000</u>
	TOTAL STATE DEPOSITS	<u>\$ 300,000</u>	<u>\$ 300,000</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in the State of Florida only.

Treatment of Policyholders

The Company 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 agreement 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 was party to a reinsurance pooling agreement with its affiliate PURE, whereby the Company assumes 50% of the business written by PURE net of outside reinsurance.

Ceded

The Company had no ceded business at December 31, 2008.

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

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in White Plains, New York, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the first year of operation, 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 non-affiliates had the following agreements:

Custodial Agreement

The Company entered into a custodial agreement with TD Bank, NA dated October 10, 2008. The agreement contained all the requirements of Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company engaged Amper, Politziner & Mattia, LLP to perform the statutory audit of its financial statements for the year under examination, as required by Section 624.424(8), Florida Statutes and Rule 69O-137.002, Florida Administrative Code.

Information Technology Report

Deanna Leyden, CFE, CISA, CICA performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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."

PURE INSURANCE COMPANY
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$46,695,383	\$0	\$46,695,383
Cash and Short term investments	4,459,705		\$4,459,705
Investment income due and accrued	390,110		390,110
Agents' Balances:			
Uncollected premium	1,288,415		1,288,415
Receivable from parents, subsidiaries and affiliates	685,810		685,810
	<hr/>		
Totals	\$53,519,423	\$0	\$53,519,423
	<hr/> <hr/>		

PURE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,947,712	\$0	\$1,947,712
Loss adjustment expenses	484,024		484,024
Commissions payable	592,827		592,827
Other expenses	61,056		61,056
Taxes, licenses and fees	236,374		236,374
Unearned premium	3,589,739		3,589,739
Total Liabilities	\$6,911,732	\$0	\$6,911,732
Common capital stock	\$0		\$0
Gross paid in and contributed surplus	84,000,000		84,000,000
Unassigned funds (surplus)	(37,392,308)		(37,392,308)
Surplus as regards policyholders	\$46,607,692		\$46,607,692
Total liabilities, surplus and other funds	\$53,519,424	\$0	\$53,519,424

PURE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income

Premiums earned		\$1,952,771
	Deductions:	
Losses incurred		2,698,065
Loss expenses incurred		502,550
Other underwriting expenses incurred		2,428,252
Total underwriting deductions		\$5,628,867
Net underwriting gain or (loss)		(\$3,676,096)

Investment Income

Net investment income earned		\$490,752
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$490,752
Net income before dividends to policyholders and before federal & foreign income taxes		(\$3,185,343)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$3,185,343)
Federal & foreign income taxes		0
Net Income		(\$3,185,343)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$0
Net Income		(\$3,185,343)
Net unrealized capital gains or losses		0
Change in net deferred income tax		13,093,198
Change in non-admitted assets		(47,300,163)
Surplus adjustments: Paid in		84,000,000
Change in surplus as regards policyholders for the year		\$46,607,692
Surplus as regards policyholders, December 31 current year		\$46,607,692

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$2,431,736

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, 2008, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The contracted actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$46,607,692, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**PURE INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

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, 2008, per Annual Statement	\$46,607,692
---	--------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			\$0
LIABILITIES:			
No adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$46,607,692

SUMMARY OF FINDINGS

Compliance with previous directives

This was a first year examination.

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2008.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **PURE Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$46,607,692, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned Maurice Fuller, Examiner with the Florida Office of Insurance Regulation and Joanne Campanelli, CFE, Brent Sallay, FCAS, MAAA, Randall Ross, ACAS, MAAA, Stanley Kaplan, CFE and Deanna Leyden, CFE, CISA, CICA of Examination Resources, LLC, participated in the examination.

Respectfully submitted,

James M. Pafford, Jr
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation