

REPORT ON EXAMINATION
OF
PURE INSURANCE COMPANY
FORT LAUDERDALE, FLORIDA
AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

November 9, 2010

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, 2009, of the financial condition and corporate affairs of:

**PURE INSURANCE COMPANY
800 CORPORATE DRIVE, SUITE 420
FORT LAUDERDALE, FL 33334**

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, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on July 21, 2010. The fieldwork commenced on July 26, 2010, and concluded as of November 9, 2010.

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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2009.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2008.

HISTORY

General

The Company was organized in Florida on August 5, 2008, and received there initial Certificate of Authority on October 16, 2008, as PURE Insurance Company. The Company entered into a pooling agreement with affiliate Privilege Underwriters Reciprocal Exchange (PURE) effective August 5, 2008. The Company only assumed business from its affiliate PURE and did not directly write business or issue policies. The Company was organized to provide capital flexibility and surplus notes to PURE.

The Company was party to Consent Order 96894-08-CO filed August 5, 2008, with the Office 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, 2009:

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

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

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

Capital Stock and Capital Contributions

The Company was initially capitalized with a \$50 Million contribution by Privilege Underwriters Inc. and the assignment of \$34 Million in surplus notes from PURE.

As of December 31, 2009, 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	\$840,000
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 by the Company.

Surplus Debentures

The Company had surplus note receivables totaling \$34 million with affiliate PURE. The surplus notes receivable from PURE, were non-admitted assets of the Company. PURE must obtain approval from the Florida Office of Insurance Regulation prior to payment of principal and/or interest on the surplus notes receivable due to the Company.

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

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

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes.

Conflict of Interest

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

MANAGEMENT AND CONTROL

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, 2009, 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
Matthew Jauchius Columbus, Ohio	SVP, Chief Strategy Officer Nationwide Companies
Peter M. Mundheim New York, New York	Principal Stone Point Capital, LLC
Nicholas D. Zerbib Larchmont, New York	Principal Stone Point Capital, LLC

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

Senior Officers

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

Audit Committee

James Carey ¹
Ross Buchmueller
Nicholas Zerbib

Investment Committee

James Carey ¹
Ross Buchmueller
Jeff Paraschac
Stephen Baine

1 Chair

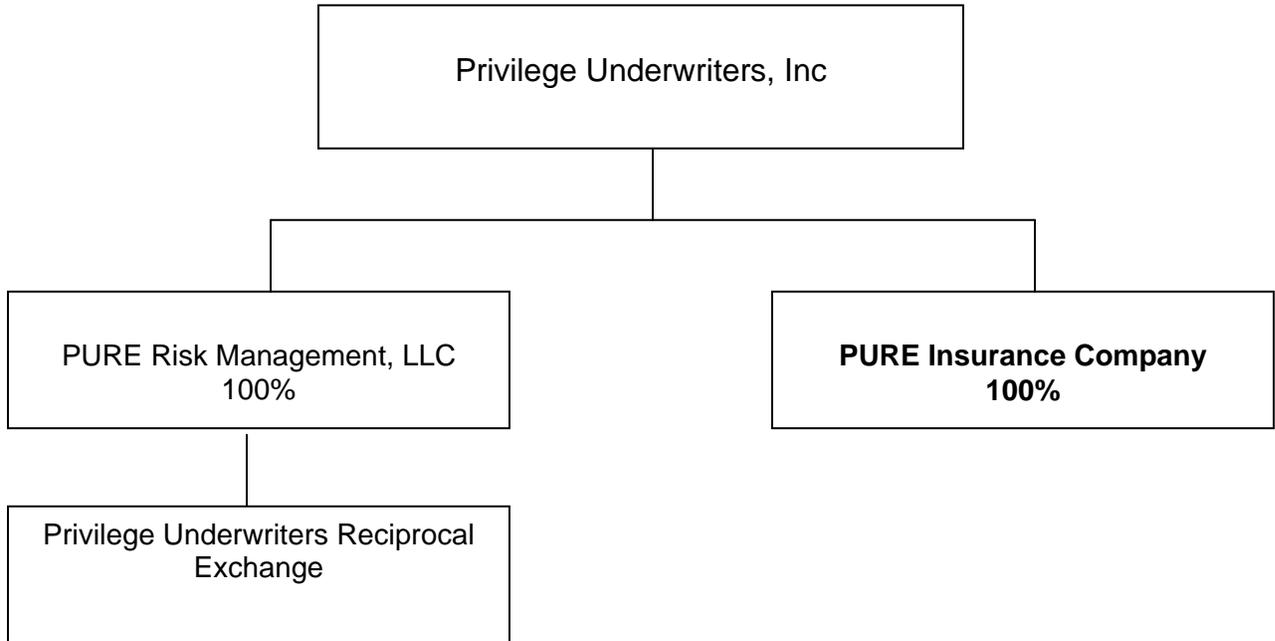
Affiliated Companies

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 August 30, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code

A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**PURE INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2009



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

Tax Allocation Agreement

The Company, along with its parent, with Privilege Underwriters, Inc. (PUI), filed a consolidated federal income tax return. On December 31, 2009, the method of allocation between the Company and its parent was on a separate return basis.

Operating Agreement

The Company entered into an operating agreement, effective August 5, 2008, with 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 agreed upon services.

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 was an amount considered adequate for the Company as recommended by the NAIC.

The company's parent also maintained Directors and Officers Liability coverage to an aggregate limit of liability of \$5,000,000 with a retention of \$50,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

TERRITORY AND PLAN OF OPERATIONS

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

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.

COMPANY GROWTH

The Company experienced net operating losses since its inception in August 2008. The Company's growth and financial results were predicated upon the success of its affiliate PURE due to the nature of the intercompany pooling agreement between the companies. Under the pooling agreement, PURE transferred 50% of liabilities and premium receivable to the Company as well as 50% of Net Premiums Written and Net Unearned Premium since inception of PURE. PURE developed projections depicting profitable operations by December 31, 2012, although these projections were preliminary and based upon management assumptions. PURE's surplus

was supported by subscriber surplus contributions which provide PURE an advantage over other insurance company models. For the past three years and years going forward, net losses had been and will be offset by PURE's surplus contributions from its members. PURE had been consistently growing its member base and members were required to make surplus contributions for the first 5 years. The aforementioned factors were expected to result in profitable operations for the Company as well assuming the Company continued to reinsure PURE in the same capacity.

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.

	2009	2008
Premiums Earned	6,805,663	1,952,771
Net Underwriting Gain/(Loss)	(3,409,866)	(3,676,095)
Net Income	(625,287)	(3,185,343)
Total Assets	56,215,366	53,519,423
Total Liabilities	10,380,828	6,911,731
Surplus As Regards Policyholders	45,834,538	46,607,692

LOSS EXPERIENCE

There had not been any significant changes in the company's loss experience.

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

Ceded

The Company has no ceded business at December 31, 2009.

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 statutory home office in Fort Lauderdale, Florida and 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 annually for the years 2008 and 2009, 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 of the requirements of Rule 69O-143.042, Florida Administrative Code.

Investment Accounting Agreement

The Company entered into an investment accounting agreement with Asset Allocation & Management Co. LLC (AAM) on August 8, 2008. AAM was required to maintain the books and records of the investment assets and report its investment activity as outlined on behalf of the Company. AAM was to act as an independent contractor in performing the services, without the power to bind or represent the Company for any purpose whatsoever.

Investment Management Agreement

The Company entered into an investment management agreement with AAM on August 8, 2008. AAM was required to establish and maintain the account in the name of the Company and to account for the assets and any additions, income, receipts, and disbursements. AAM was responsible for the investment and reinvestment of the assets in the account designated by the Company, subject to AAM's discretion.

Independent Auditor Agreement

The Company engaged Amper, Politziner & Mattia, LLP to perform the statutory audit of its financial statements for the year under this examination, required by Section 626.424(8), Florida Statutes and Rule 69O-137.002 Florida Administrative Code.

Information Technology Report

ParenteBeard LLC 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.

STATUTORY DEPOSITS

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

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

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$52,533,053		\$52,533,053
Cash & short term investments	2,381,793		2,381,793
Investment income due and accrued	416,961		416,961
Agents' Balances:			
Uncollected premium	883,559		883,559
	<hr/>		
Totals	<u>\$56,215,366</u>		<u>\$56,215,366</u>

PURE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,074,913		\$2,074,913
Reinsurance payable on paid losses and LAE	1,211,040		1,211,040
Loss adjustment expenses	398,670		398,670
Other expenses	28,243		28,243
Unearned premium	6,505,635		6,505,635
Payable to parent, subsidiaries and affiliates	162,327		162,327
Total Liabilities	\$10,380,828		\$10,380,828
Common capital stock	\$840,000		\$840,000
Gross paid in and contributed surplus	83,160,000		83,160,000
Unassigned funds (surplus)	(38,165,462)		(38,165,462)
Surplus as regards policyholders	\$45,834,538		\$45,834,538
Total liabilities, surplus and other funds	\$56,215,366		\$56,215,366

PURE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income

Premiums earned		\$6,805,663
	Deductions:	
Losses incurred		3,221,696
Loss adjustment expenses incurred		507,587
Other underwriting expenses incurred		6,486,247
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$10,215,529
Net underwriting gain or (loss)		(\$3,409,866)

Investment Income

Net investment income earned		\$2,060,990
Net realized capital gains or (losses)		723,588
Net investment gain or (loss)		\$2,784,579

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		
Aggregate write-ins for miscellaneous income		
Total other income		\$0
Net income before dividends to policyholders and before federal & foreign income taxes		(\$625,287)
Dividends to policyholders		
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$625,287)
Federal & foreign income taxes		
Net Income		(\$625,287)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$46,607,692
Net Income		(\$625,287)
Change in non-admitted assets		(407,050)
Change in net deferred income tax		259,182
Capital Changes - transferred from surplus		840,000
Surplus adjustments: Paid in		(840,000)
Examination Adjustment		
Change in surplus as regards policyholders for the year		(\$773,155)
Surplus as regards policyholders, December 31 current year		\$45,834,538

A comparative analysis of changes in surplus is shown below.

PURE INSURANCE COMPANY
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

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, 2009, per Annual Statement \$45,834,538

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>	
ASSETS:				
No Adjustments				
LIABILITIES:				
No Adjustments				
Net Change in Surplus:				<u>0</u>
Surplus as Regards Policyholders December 31, 2009, Per Examination				<u><u>\$45,834,538</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$3,285,953

An outside actuarial firm, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, 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 engaged an independent actuarial firm, AMI Risk Consultants, to review the Loss and Loss Adjustment Expense reserve carried in the Company's balance sheet as of December 31, 2009 and they were in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$ 45,834,538, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

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, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$45,834,538, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, Examiner In Charge, Jennifer Cox and Steven Dioguardi, Participating Examiners, of ParenteBeard LLC; Gail Flannery, FCAS MAAA, Consulting Actuary, of AMI Risk Consultants; and Leon Pressman, CISA, IT Manager, also representing ParenteBeard LLC, participated in the examination. Mark Brown, Reinsurance/Financial Specialist of the Office also participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation