

REPORT ON EXAMINATION
OF
PURE INSURANCE COMPANY
FORT LAUDERDALE, FLORIDA
AS OF
DECEMBER 31, 2010

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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March 19, 2012

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, 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, 2010, of the financial condition and corporate affairs of:

**PURE INSURANCE COMPANY
800 CORPORATE DRIVE, SUITE 420
FORT LAUDERDALE, FLORIDA 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, 2010, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on October 31, 2011, to November 5, 2011. The fieldwork commenced on November 14, 2011, and concluded as of March 19, 2012.

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, 2010.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2009.

HISTORY

General

The Company was incorporated in Florida on August 5, 2008, as a stock property and casualty insurer and commenced business on August 5, 2008, as PURE Insurance Company. The Company entered into a pooling agreement with affiliate Privilege Underwriters Reciprocal Exchange (PURE) effective August 5, 2008. Pursuant to the pooling agreement, the Company only assumed business from its affiliate, PURE, and did not directly write any business or issue policies.

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 (reinsure only) the following insurance coverage in Florida on December 31, 2010:

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

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

Dividends to Stockholders

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2010, 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.

The parent purchased Capital Stock in the amount of \$840,000, Gross Paid-in and Contributed Surplus in the amount of \$49,160,000, and the assignment of \$34,000,000 in surplus notes from the affiliate, PURE in exchange for common stock.

Surplus Debentures

The Company had surplus note receivables totaling \$34,000,000 assigned from PURE. The surplus notes receivable from PURE were non-admitted assets of the Company. PURE must obtain approval from the Office 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, and purchase or sales through reinsurance during the period of this 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 compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, and including the authorization of investments as required by Section 625.304, 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 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

Directors

Name and Location	Principal Occupation
James D. Carey Riverside, Connecticut	Principal Stone Point Capital, LLC
John S. Baine Columbus, Ohio	General / Partner Starboard Specialty Funds, LLC
Ross J. Buchmueller Larchmont, New York	President & CEO PURE Group of Companies
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 J. Buchmueller	President & CEO
Martin Hartley	Executive Vice President & COO
Jeffrey Paraschac	Executive Vice President & CFO

The Company's Board appointed several internal committees. Following were the principal internal Board committees and their members as of December 31, 2010:

Audit Committee	Investment Committee	Executive Committee
James D. Carey ¹	James D. Carey ¹	Ross J. Buchmueller ¹
Ross J. Buchmueller	Ross J. Buchmueller	Martin Hartley
Nicholas D. Zerbib	Jeffrey Paraschac	Jeffrey Paraschac
	John S. Baine	Keith Self
		Mark Galante

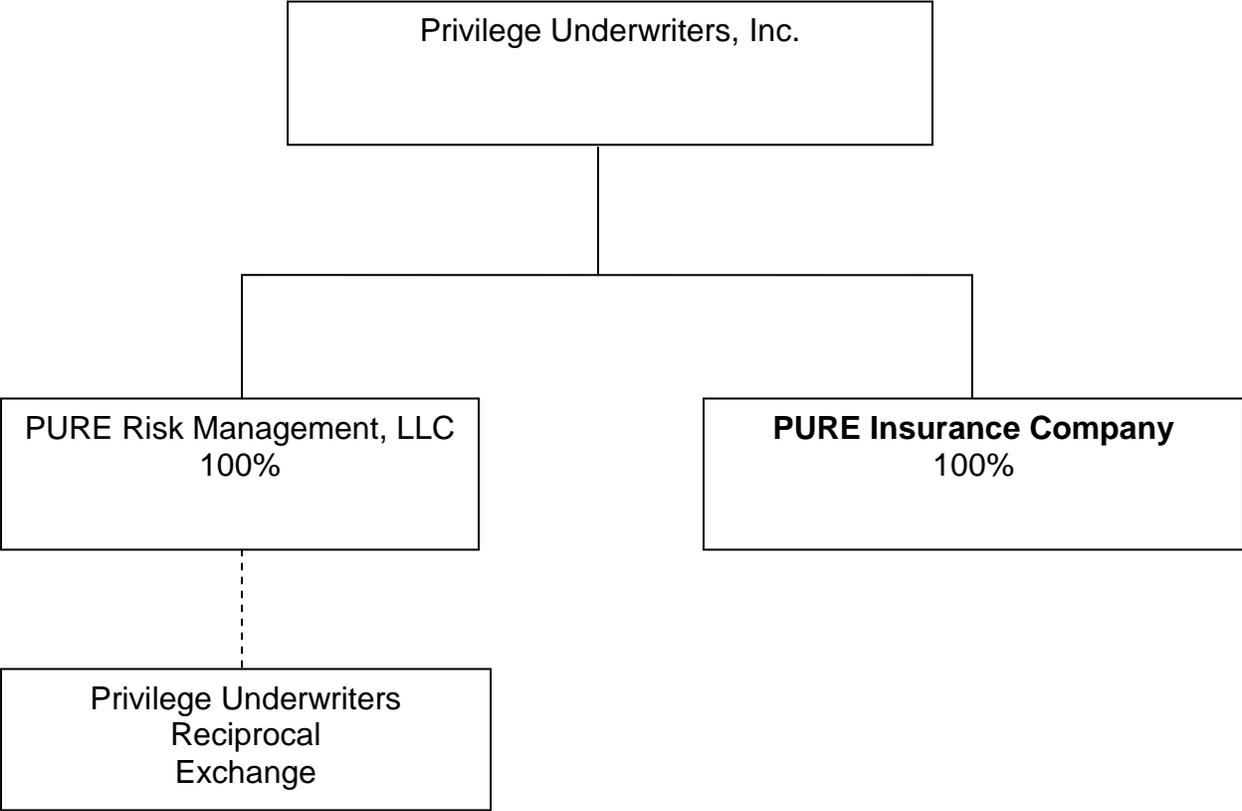
¹ Chairman

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 May 31, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

PURE Insurance Company
ORGANIZATIONAL CHART
DECEMBER 31, 2010



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

Tax Allocation Agreement

The Company, along with its parent, Privilege Underwriters, Inc. (PUI), filed a consolidated federal income tax return. On December 31, 2010, the method of allocation between the Company and PUI was on a separate-return basis. At the close of each consolidated tax year, the Company shall compute and pay to the parent its stand alone federal income tax liability, likewise, PUI shall pay the Company an amount equal to its share of the reduction in the federal income tax liability of the group, if any, at the close of each consolidated tax year.

General 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. Fees incurred under this agreement during 2010 amounted to \$1,845,020.

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 as recommended by the NAIC. The Company also maintained Directors and Officers (D&O) liability insurance coverage to an aggregate limit of liability of \$20,000,000 with retention of \$50,000.

The Company was a named insured under the above referenced policies issued to the PURE Group of Insurance Companies.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore no pension, stock ownership or 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'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, PURE transferred 50% of liabilities and premiums receivable to the Company, as well as 50% of Net Premiums Written and Net Unearned Premiums since the inception of the Company.

As of December 31, 2010, the Company's Net Premiums Written and Unearned Premiums have increased, while the Company has experienced Net Underwriting Losses during the past two years.

Surplus declined during the past two years. The intercompany pooling agreement has an insolvency clause provision.

PURE developed projections depicting profitable operations by December 31, 2012 and its surplus was supported by subscriber surplus contributions, which provides PURE an advantage over the traditional insurance company model. For the past three years and years going forward, net losses have been offset by PURE's surplus contributions from its members.

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.

	2010	2009	2008
Premiums Earned	13,455,488	6,805,663	1,952,771
Net Underwriting Gain/(Loss)	(3,856,135)	(3,409,866)	(3,676,095)
Net Income	(1,418,843)	(625,287)	(3,185,343)
Total Assets	59,681,080	56,215,366	53,519,423
Total Liabilities	15,067,842	10,380,828	6,911,731
Surplus As Regards Policyholders	44,613,238	45,834,538	46,607,692

LOSS EXPERIENCE

The Company made an increase to its reserves for Losses and Loss Adjustment Expenses from the prior examination. This increase was concurrent with the increased business assumed under the reinsurance pooling agreement.

During the current examination period, the Company showed favorable loss development.

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

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 did not cede any insurance during the period of this examination.

ACCOUNTS AND RECORDS

The Company maintained its statutory home office in Fort Lauderdale, Florida and principal administrative office 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, 2009, and 2010 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 business is processed electronically through PURE's IT Systems and applications at a third party facility in Andover, Massachusetts.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with TD Bank, NA dated on October 10, 2008. The agreement was in compliance with 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 activities performed on behalf of the Company. AAM serves as an independent contractor in performing these services, without the power to bind or represent the Company for any purpose whatsoever.

Investment Management Agreement

The Company also entered into an investment management agreement with AAM on August 8, 2008. AAM was required to establish and maintain an 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. In addition, AAM was responsible for selecting high quality brokers for the Company's investment portfolio.

Independent Auditor Agreement

The Company contracted with an external independent auditor to perform the annual audit of its financial statements as required by Rule 69O-137.002(7)(c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Tracy Gates, CPA, CISA of Highland Clark 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, and with various state officials 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 SPECIAL DEPOSITS	<u>\$ 300,000</u>	<u>\$ 300,000</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 38,191,391		\$ 38,191,391
Cash & Short-term investments	19,681,053		19,681,053
Investment income due and accrued	300,755		300,755
Premiums and considerations	1,507,881		1,507,881
	<hr/>		
Total	\$ 59,681,080		\$ 59,681,080
	<hr/> <hr/>		

PURE INSURANCE COMPANY
Liabilities, Surplus and Other Funds
DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 3,933,858		\$ 3,933,858
Reinsurance payable on paid losses	451,960		451,960
Loss adjustment expenses	787,978		787,978
Other expenses (excluding taxes, licenses & fees)	97,030		97,030
Unearned premiums	9,662,745		9,662,745
Payable to parent, subs. and affiliates	134,271		134,271
Total liabilities	<u>\$ 15,067,842</u>		<u>\$ 15,067,842</u>
Common Capital Stock	\$ 840,000		\$ 840,000
Gross paid in and contributed surplus	83,160,000		83,160,000
Unassigned funds (surplus)	<u>(39,386,762)</u>		<u>(39,386,762)</u>
Surplus as regards policyholders	<u>\$ 44,613,238</u>		<u>\$ 44,613,238</u>
Totals	<u><u>\$ 59,681,080</u></u>		<u><u>\$ 59,681,080</u></u>

PURE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned		\$	13,455,488
Deductions:			
Losses incurred			5,584,880
Loss adjustment expenses incurred			1,965,417
Other underwriting expenses incurred			9,761,326
Aggregate write-ins for underwriting deductions			0
Total underwriting deductions			17,311,623
Net Underwriting gain (loss)		\$	(3,856,135)

Investment Income

Net investment income earned		\$	1,837,977
Net realized capital gains			599,315
Net investment gain (loss)		\$	2,437,292

Other Income

Net gain or (loss) from agents' or premium balances charged off			0
Finance and service charges not included in premiums			0
Aggregate write-ins for miscellaneous income			0
Total other income (loss)			\$0

Net income before dividends to policyholders and before federal & foreign income taxes		\$	(1,418,843)
Dividends to policyholders			0
Net income after dividends to policyholders, but before federal & foreign income taxes		\$	(1,418,843)
Federal and foreign income taxes			0
Net income		\$	(1,418,843)

Capital and Surplus Account

Surplus as regards policyholders December 31 prior year		\$	45,834,538
Net income		\$	(1,418,843)
Change in net unrealized capital gains or losses			0
Change in net deferred income tax			(662,438)
Change in non-admitted assets			859,981
Change in Surplus as regards policyholders		\$	(1,221,300)
Surplus as regards policyholders December 31 current year		\$	44,613,238

A comparative analysis of changes in surplus is shown below

PURE INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

Surplus as regards policyholders December 31, 2010 per Annual Statement			\$ 44,613,238
	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
		No Adjustment	
LIABILITIES:			
		No Adjustment	
Net Change in Surplus:			\$ -
Surplus as regards policyholders December 31, 2010 per Examination			<u>\$ 44,613,238</u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$4,721,836

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, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The examination consulting actuary, Dennis Henry, FCAS, MAAA of The Actuarial Advantage, reviewed the loss and loss adjustment expense work papers provided by the Company and concurred with the opinion of the Company's consulting actuary.

Capital and Surplus

\$44,613,238

The amount reported by the Company of \$44,613,238, 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, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$44,613,238, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John M. Coleman, CFE, Examiner-In-Charge and Tracy Gates, CISA, IT Specialist, of Highland Clark, LLC participated in the examination. In addition, Dennis R. Henry, FCAS, MAAA, consulting actuary of The Actuarial Advantage, Inc., Vetrecia Smith, Financial Examiner/Analyst and Samita Lamsal, Financial Examiner/Analyst of the Office, participated in the examination.

Respectfully submitted,

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