

EXAMINATION REPORT

OF

PURE INSURANCE COMPANY

FORT LAUDERDALE, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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February 26, 2016

David Altmaier
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, 2014, 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, 2011 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covered the period of January 1, 2010 through December 31, 2010. This examination commenced with planning at the Office on July 27, 2015 to July 31, 2015. The fieldwork commenced on July 27, 2015 and concluded as of February 26, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements.

Holding Company Transactions

The Company was not in compliance with Rule 69O-143.047, Florida Administrative Code, because the Office was not pre-notified of any of the transactions and/or agreements with Eagle Point Credit Company, Inc. Rule 69O-143.047, Florida Administrative Code, requires that certain “transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the Office in writing of its intention to enter into such a transaction at least thirty (30) days prior thereto...:

- Sales, purchases, exchanges, loans or extensions of credit, guarantees, or investments provided such transactions are equal to or exceed the lesser of three percent of the insurer’s admitted assets or 25 percent of surplus as regards policyholders...

Investments

The Company made several investments that were not compliant with Section 625.332(1)(b), Florida Statutes.

Prior Examination Findings

There were no material findings, exceptions, or corrective action to be taken by the Company noted during the examination as of December 31, 2010.

COMPANY 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 the following insurance coverage(s) in Florida on October 16, 2008 and continued to be authorized as of December 31, 2014:

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

The Company was authorized to write the Allied Lines of business on June 13, 2012, and continued to be authorized for the insurance coverage as of December 31, 2014.

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

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2014, the Company's capitalization was as follows:

Number of authorized common capital shares	1,500,000
Number of shares issued and outstanding	920,000
Total common capital stock	\$920,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Privilege Underwriters, Inc. (PUI), a Delaware Corporation, who owned 100% of the stock issued by the Company. The parent purchased Capital Stock in the amount of \$920,000, Gross Paid-in and Contributed Surplus in the amount of \$147,122,399 and the assignment of \$34,000,000 in surplus notes from the affiliate, PURE in exchange for common stock.

Insurance Intermediaries, Inc. (Nationwide) no longer has an ownership interest in the parent company, Privilege Underwriters, Inc., as of August 14, 2015.

Surplus Notes

On June 30, 2014, the principal of \$34,000,000 of the surplus notes originally issued to the Company was satisfied. PURE obtained approval on June 30, 2014 from the Office prior to payment of principal on the surplus notes receivable due to the Company. Due and unpaid interest as of December 31, 2014, in the amount of \$8,484,893 related to such subordinated surplus notes that were not approved for payment.

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 of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), 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, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic 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 Section 628.231, Florida Statutes. Directors serving as of December 31, 2014 are shown on the following page.

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
Peter M. Mundheim New York, New York	Principal, Stone Point Capital, LLC
Nicholas D. Zerbib Larchmont, New York	Principal, Stone Point Capital, LLC

Subsequent to December 31, 2014, Christopher Harrington and Tagar Olson were appointed to the Board.

In accordance with the Company's bylaws, the Board 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

Subsequent to December 31, 2014, Jennifer Lawrence, SVP, General Counsel & Corporate Secretary was appointed as a Senior Officer.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2014:

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

¹ Committee Chair

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

During the review of the Corporate Minutes for the Companies, the following changes in directors, officers, or Subscribers Advisory Committee members occurred:

- Director Matthew Jauchius resigned as of December 8, 2011.
- Director David LaPaul was appointed on December 8, 2011.
- Officer Mark Musser was appointed on January 1, 2013.
- Director David LaPaul resigned as of September 19, 2013.
- Officer Mark Musser resigned before year-end 2014.

The appointment and resignation of directors and officers occurred without timely notice in accordance with Section 628.261, Florida Statutes. Further, Rule 69O-143.046 (6), Florida Administrative Code, requires an insurer to keep current the information required to be disclosed in the Insurance Company Holding System Registration Statement by reporting all material changes or additions within 15 days of the change.

Affiliated Companies

The most recent holding company registration statement was filed with the Office on March 27, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

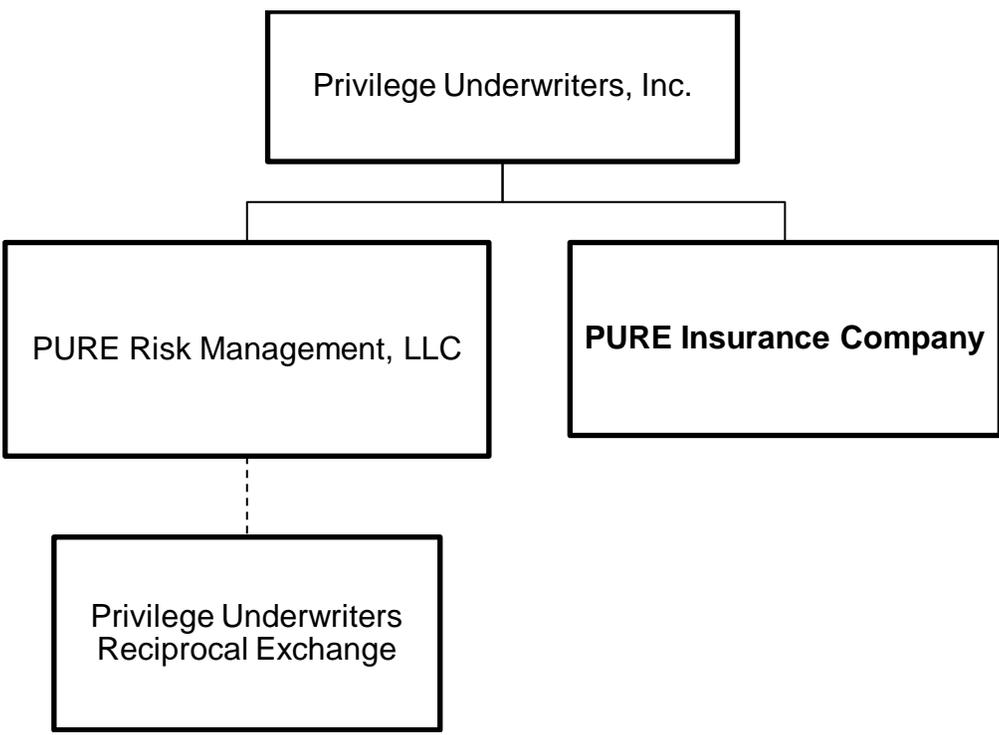
The Company made several investments that were not compliant with Section 625.332(1)(b), Florida Statutes. The Company invested \$5,000,000 in Eagle Point Credit Company Inc., a publicly traded company managed by Eagle Point and majority owned (8,700,000 of 13,800,000

outstanding shares) by Stone Point's Trident V Fund reported on Schedule D were not disclosed to the Office for consent. Affiliate Stone Point Capital LLC owned a majority interest, via its Trident funds, in Eagle Point Credit Management, which formed a Cayman Islands hedge fund in 2012 called Eagle Point Credit US LP, which was managed by Eagle Point. The Company invested \$7M in Eagle Point Credit US LP, a Cayman Islands hedge fund managed/controlled by Eagle Point and affiliates and \$3,500,000 in Sound Point Credit Opportunities Fund LP, a hedge fund managed/controlled by Sound Point Capital Management LP, an affiliate of Ellipse Holdings, LLC, which is owned by several Stone Point principals reported on Schedule BA that were not disclosed appropriately.

In June 2015, PUI entered into a definitive agreement to recapitalize with equity investments from funds managed by Stone Point Capital LLC, KKR & Co. LP and the management team. As part of the transaction, funds managed by Stone Point Capital will maintain a majority stake in Privilege Underwriters, while KKR will acquire a minority stake. As a part of this recapitalization, two new layers of partnership entities were created: Privilege Group Holdings LP (PGH LP) became owner of PUI via an indirect acquisition and Privilege Group Holdings GP (PGHGP) became the general partner of PGH LP. XI The private equity ownership percentage is equal in PGH GP and PGH LP respectively.

On November 16, 2015, XL Reinsurance America Inc., (XL Re) became a limited partner of Privilege Group Holdings, LP.

**PURE Insurance Company
Organizational Chart
December 31, 2014**



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, 2014, 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 standalone 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. Expenses incurred under this agreement during 2014 amounted to \$2,548,461.

Reinsurance Pooling Agreement

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

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in 49 states (including the District of Columbia) with pending applications in Alaska and Idaho as of December 31, 2014.

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 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 did not cede any reinsurance 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.

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 and with US Bank, dated September 17, 2014. Both agreements are in compliance with Rule 69O-143.042, Florida Administrative Code.

Investment Management Agreement

The Company also entered into an investment management agreement with AAM on February 1, 2013 which supersedes the August 8, 2008 agreement. 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

An independent CPA, EisnerAmper LLP, audited the Company's statutory basis financial statements annually for the years 2011, 2012, 2013 and 2014 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.

INFORMATION TECHNOLOGY REPORT

Brian Menard, AES, CFE, CISA of AGI Services, performed the review and 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	<u>\$300,000</u>	<u>\$300,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$300,000</u>	<u>\$300,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$300,000</u>	<u>\$300,000</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements.

Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

PURE Insurance Company

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$89,303,468		\$89,303,468
Stocks:			
Preferred	353,360		353,360
Common	9,686,555		9,686,555
Cash and Short-Term Investments	84,350,030		84,350,030
Other investments	11,351,679		11,351,679
Assumed reinsurance premium receivable from affiliates	12,132,007		12,132,007
Investment income due & accrued	330,505		330,505
Net deferred tax asset	3,653,829		3,653,829
Totals	<u>\$211,161,433</u>		<u>\$211,161,433</u>

PURE Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$16,914,121		\$16,914,121
Loss adjustment expenses	2,449,339		\$2,449,339
Reinsurance payable	3,333,462		\$3,333,462
Other expenses	133,533		\$133,533
Current federal and foreign income taxes	1,686,549		\$1,686,549
Unearned premium	48,858,230		\$48,858,230
Payable to parent, subsidiaries and affiliates	205,317		\$205,317
Payable for securities	964,132		\$964,132
Total Liabilities	<u>\$74,544,683</u>		<u>\$74,544,683</u>
Common capital stock	920,000		920,000
Gross paid in and contributed surplus	147,122,399		147,122,399
Unassigned funds (surplus)	<u>(11,425,649)</u>		<u>(11,425,649)</u>
Surplus as regards policyholders	<u>\$136,616,750</u>		<u>\$136,616,750</u>
Total liabilities, surplus and other funds	<u><u>\$211,161,433</u></u>		<u><u>\$211,161,433</u></u>

PURE Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2014

	2014	2013	2012	2011
Underwriting Income				
Premiums Earned	\$85,627,409	\$60,226,957	\$36,364,071	\$23,858,961
Deductions:				
Losses incurred	\$39,268,077	\$25,400,172	\$19,740,925	\$13,617,860
Loss adjustment expenses incurred	7,675,254	5,546,805	4,507,323	2,593,473
Other underwriting expenses incurred	44,840,014	35,348,435	22,955,156	15,027,319
Total underwriting deductions	<u>\$91,783,345</u>	<u>\$66,295,412</u>	<u>\$47,203,404</u>	<u>\$31,238,652</u>
Net underwriting gain or (loss)	(\$6,155,936)	(\$6,068,455)	(\$10,839,333)	(\$7,379,691)
Investment Income				
Net investment income earned	\$7,504,288	\$4,545,935	\$1,258,400	\$2,813,747
Net realized capital gains or (losses) less capital gains tax	305,259.00	30,158.00	549,610.00	411,901
Net investment gain (loss)	<u>\$7,809,547</u>	<u>\$4,576,093</u>	<u>\$1,808,010</u>	<u>\$3,225,648</u>
Other Income				
Net income before dividends to policyholders, before federal & foreign income taxes	\$1,653,611	(\$1,492,362)	(\$9,031,323)	(\$4,154,043)
Net Income, after dividends to policyholders, before federal & foreign income taxes	\$1,653,611	(\$1,492,362)	(\$9,031,323)	(\$4,154,043)
Federal & Foreign Income Taxes	1,364,393	(4,027,537)	-	-
Net income	<u>\$289,218</u>	<u>\$2,535,175</u>	<u>(\$9,031,323)</u>	<u>(\$4,154,043)</u>
Capital and Surplus Account				
Surplus as regards policyholders, December 31 prior year	\$95,083,851	\$39,451,515	\$40,420,857	\$44,613,238
Net Income	289,218	2,535,175	(9,031,323)	(4,154,043)
Capital Contributions: Paid in	-	-	80,000	-
Surplus Adjustments: Paid in	3,000,000	53,042,399	7,920,000	-
Net unrealized capital gains or losses	582,236	44,122	-	-
Change in net deferred income tax	3,653,829	-	-	(12,689,942)
Change in non-admitted assets	34,007,616	10,640	61,981	12,651,604
Change in surplus as regards policyholders for the year	<u>\$41,532,899</u>	<u>\$55,632,336</u>	<u>(\$969,342)</u>	<u>(\$4,192,381)</u>
Surplus as regards policyholders, December 31 current year	<u>\$136,616,750</u>	<u>\$95,083,851</u>	<u>\$39,451,515</u>	<u>\$40,420,857</u>

PURE Insurance Company
Comparative Analysis of Changes in Surplus
December 31, 2014

Surplus as Regards Policyholders December 31, 2014, per Annual Statement \$136,616,750

	Per Company	Per Exam	Increase (Decrease) In Surplus
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Assets:

No Adjustment

Liabilities:

No Adjustment

Net Change in Surplus:

Surplus as Regards Policyholders December 31, 2014, per Examination

\$136,616,750

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An outside actuarial firm, Perr & Knight, appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, 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, Alan Kaliski, FCAS, MAAA of AGI Services, reviewed the Loss and Loss Adjustment Expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$136,616,750, exceeded the minimum of \$7,155,515 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Holding Company Transactions

We recommend that the Company comply with Rules 69O-143.046 and 69O-143.047, Florida Administrative Code by properly disclosing affiliates and their transactions with the Office.

Investments

We recommend the Company comply with Section 625.332(1)(b), 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, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$136,616,750, which exceeded the minimum of \$7,155,515 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Scott Eady, CFE, CPA Examiner-In-Charge, Brian Menard, AES, CISA, CFE, IT Specialist, Alan Kaliski, FCAS, MAAA, Actuary, and Helene Bradley, CPA, Participating Examiner, of AGI Services participated in the examination. Members of the Office who participated in the examination include Jonathan Frisard, CPA, Financial Examiner/Analyst Supervisor, Examination Manager, Michael Goldgisser, Reinsurance Financial Specialist and Marie Stuhlmuller, Financial Specialist Participating Examiners.

Respectfully submitted,

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation