



Privilege Underwriters  
Reciprocal Exchange



2008 Report to Members

HIGH VALUE HOMEOWNERS

PRIVATE FLEET AUTOMOBILE

JEWELRY & ART

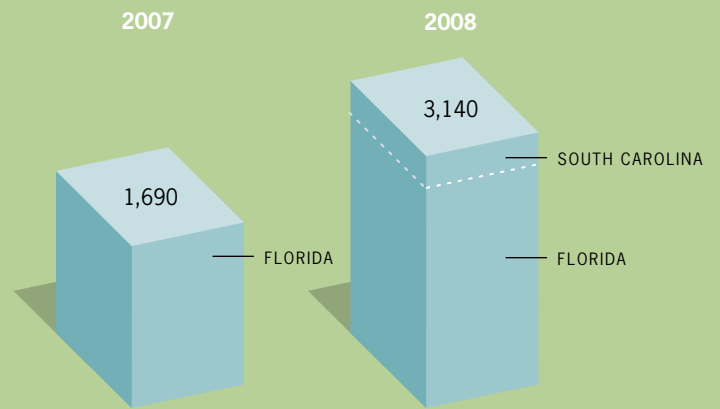
PERSONAL EXCESS LIABILITY

WATERCRAFT

# PURE at a Glance: 2008

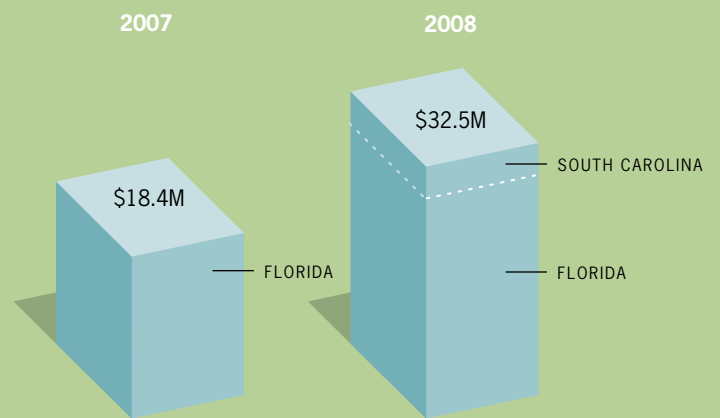
## MEMBERSHIP

Membership increased by 86% due, in part, to successful expansion in South Carolina.



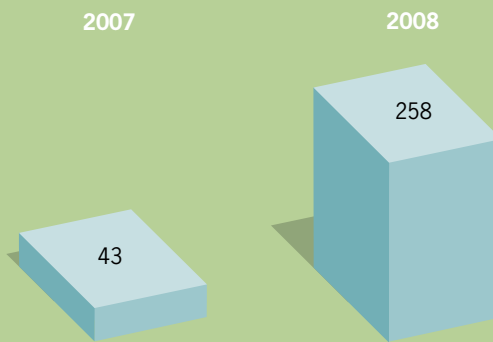
## GROSS WRITTEN PREMIUM

Gross written premium grew by 77%. The average written premium per member still remains in excess of \$10,000.



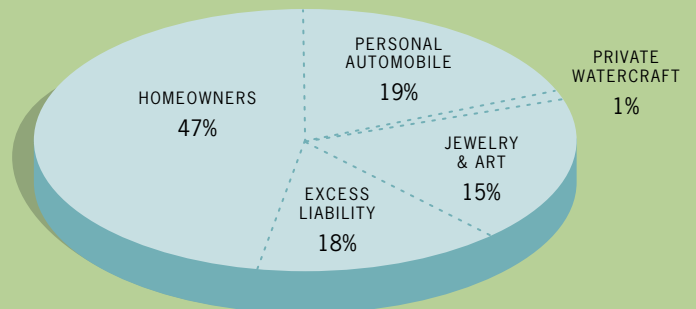
## CLAIMS REPORTED

With PURE's increase in membership, our claims department handled many more claims in 2008.



## POLICY COVERAGE BREAKDOWN

We continue to offer more policies to more members. We now write more auto, watercraft, jewelry & art and excess liability policies than homeowners policies.



## It's almost hard to know where to start.

Since last year's report, the world's largest insurance company was effectively nationalized, the largest homeowners insurer in Florida has announced a withdrawal plan based on severe profit concerns, and a combination of natural disasters and massive investment losses have erased an estimated 10-15% of the total surplus capital of the insurance industry. These are humbling times, yet there are plenty of reasons for optimism relating to your company:

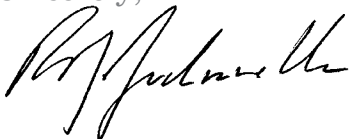
- **We have built upon our track record for claims excellence**, handling many more and larger claims for our members.
- **Our conservative investment portfolio saw gains** through the toughest capital markets environment in a generation.
- **We have successfully launched in South Carolina** and earned licenses to expand into many more states.
- **We formed The PURE Group of Insurance Companies** and nearly doubled the surplus capital available to PURE members.
- **We earned a financial strength rating of A- (Excellent)** from A.M. Best, a leading independent rating services company.

Your 2008 Report to Members will cover each of these items in greater detail. I hope you find it informative and that it confirms your smart decision to become a member of PURE.

We could not have achieved so much in 2008 without the remarkable effort of our team of professionals in New York, South Carolina and Florida, and the elite group of independent insurance agents and brokers who work tirelessly in the service of our membership. I also want to extend a special thanks to your Subscribers' Advisory Committee, led by Bill Wilson, whose advice and insight help us in so many ways.

I thank you for your commitment to PURE and wish you great health and prosperity in 2009.

Sincerely,



Ross Buchmueller

# A.M. Best Gives PURE a Rating of A- (Excellent)



In their report, A.M. Best affirmed PURE's strengths and paid tribute to the role that PURE members play in the steady growth of PURE's surplus capital.

In August of 2008, PURE was assigned a rating for financial strength of A- (Excellent) from A.M. Best Company, the leading independent rating services company for the insurance industry. This rating put to rest the largest single concern of our current and prospective members, while virtually silencing our critics and competitors.

All insurance companies face uncertainty, especially these days. For newly-formed companies, the likelihood that a proposed business plan will not go as management hoped creates a challenge for rating agencies. A.M. Best outlines the criteria for rating new companies including, but not limited to:

- Management must be experienced and accomplished in their field.
- Business plans must be detailed and "stressed" to consider adverse events.
- There must be enough capital in the business at the outset to fully contemplate all of the needs of the first 3-5 years of the plan (even under the "stressed" scenarios).

In their report, A.M. Best affirmed our strengths and paid tribute to the role that PURE members play in the steady growth of PURE's surplus capital. They noted, "The rating contemplates additional financial flexibility afforded through its parent company with multiple investor sources and the growing impact of surplus contributions from PURE subscribers."

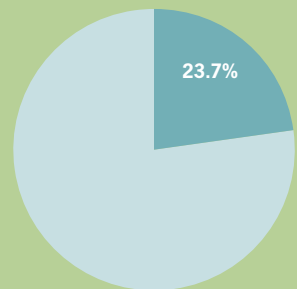
We are delighted and most proud to have earned this prestigious rating. Our members can recommend PURE to their friends and associates with confidence.

## Putting the Rating in Perspective

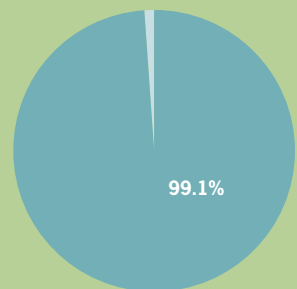
As large national carriers have reduced their exposure to the Florida homeowners market, smaller domestic companies have greatly increased their market share. To the best of our knowledge, PURE is the only independent Florida-domiciled homeowners carrier formed in the past 10 years to have earned a rating of A- (Excellent) or higher by A.M. Best.

### Percent homeowners market share of companies that have an A.M. Best Rating of A- (Excellent) or greater.\*

Florida



South Carolina



\*Share of the combined direct written homeowners premium of the top 25 companies in each state. Florida data does not include Citizens, which is the largest writer and is not A.M. Best rated.

# We Measure Our Success In Your Satisfaction

With an expert team with decades of experience, we fully appreciate the importance of claims service. More than anything else, we expect to delight our members with a timely response, strong communications, hassle-free settlements and a lasting commitment to respect our fiduciary duty to our membership.

In 2008, we settled more than 250 claims for our members in Florida and South Carolina. When surveyed for feedback, 100% of the respondents said they would recommend PURE to someone else.

The claims testimonials that appear on our website ([www.purehnw.com/claims](http://www.purehnw.com/claims)) show a distinct trend. By our commitment to communicating with our membership – early and often – we have achieved satisfaction in an area often overlooked by insurance companies. We keep you in the loop. We also realize how valuable your time can be. Our Member Advocate role is designed to reduce the administrative hassles relating to a loss. Below is just one example where we were able to make the claims process just a little easier for one of our Florida members.

James Tate and  
daughter Jordyn



**“PURE made finding a replacement incredibly easy.** While driving our car, my daughter was struck by a vehicle attempting an illegal left turn. Thankfully, she walked away without a scratch but our car sustained heavy front end damage and was beyond repair. Finding that same vehicle would have required a tremendous amount of time and effort on our part. Our PURE adjuster removed the hassles of this claim by arranging for a rental car while we awaited the new vehicle. He then contacted several dealerships and found us an identical model down to every option, including color. He also negotiated a purchase price that was nearly \$8,000 less than what I had paid for it a few months earlier. I was spared many hours of car shopping and had a new vehicle within a week of reporting the loss.”



# What You Can Do To Bridge the Coverage Gap

Here are two important reminders to help you make proper coverage selections and dodge some avoidable mistakes. The agents representing PURE are some of the finest advisors in the industry and you should lean on them to guide you through important coverage selections.

satisfaction. But, as part of this effort to control the cost of risk, you have a responsibility to select the right coverage.

The agents representing PURE are some of the finest advisors in the industry and you should lean on them to guide you through important coverage selections. Here are two areas where proper coverage can help you dodge avoidable mistakes:

**Purchase Adequate Liability Limits.** A typical homeowners policy provides some coverage to defend and pay damages on behalf of a policyholder against allegations of personal injury or property damage. Similar liability coverage is provided under automobile and watercraft policies. For most successful families, the limits provided are simply inadequate to protect their assets. PURE's Personal Excess Liability (or Umbrella) policy provides the extra peace of mind that catastrophic events will not destroy your life's savings – or tap future earnings. While prices vary based on a number of factors, a \$5,000,000 Personal Excess Liability policy from PURE can often cost less than \$1,000 a year.

**Properly insure jewelry, art or valuables.** PURE's High Value Homeowners policy is one of the broadest policies on the market, including \$5,000 of coverage for jewelry that is lost or stolen. Time after time, we receive claims for jewelry losses where the member did not purchase additional coverage to protect their collection. When we insure a primary residence, we will always remind our members and agents to insure their valuables as well. Our jewelry rates are among the lowest in the industry – and we are flexible to either specifically insure each valuable item (scheduled or itemized coverage) or provide a "blanket" amount of coverage for collections. To put it in perspective, \$100,000 of jewelry could cost less than \$1,000 a year to insure – and less still with good documentation and appraisals.

We are committed to helping our members reduce the price of insurance today, while controlling the cost of risk for the long term. We hold the burden of carefully selecting a responsible membership. We try to find ways to help you prevent or mitigate damage; and we aim to reduce claims costs without impacting our members'



# We Help Our Members Prevent Future Losses

In South Carolina, PURE added a unique benefit to our High Value Homeowners policy that has since been expanded for our members in New York. When there is a significant covered loss (greater than \$10,000), PURE will not only pay the cost to repair the damaged property but will also contribute to the costs to prevent or mitigate future similar losses.

Brad Havemeier, president of Gulfshore Insurance Inc., one of the largest and most respected insurance agents in Southwest Florida, leads his team to be viewed as risk advisors, not just insurance agents, for both his personal and commercial clients. Brad said, “When Dale Tomlinson (PURE’s Vice President of Risk Management) visits with one of our largest clients, I am confident that he will give the right advice to help reduce risks and prevent losses.” With more than twenty years of experience with some of the largest insurers in the high net worth niche, Dale is one of the most accomplished personal risk managers in Florida and available to help PURE members make smart risk management decisions.

As we move ahead, we will always be on the lookout for new, cost-effective ways to help our membership reduce the overall cost of risk.



Ted Toburen

**“PURE offered \$2,500 to help make sure that lightning didn’t strike twice.** My home was abruptly hit by a lightning bolt in September. My chimney was



shattered along with a lot of electronic equipment and controls. My PURE adjuster worked closely with me to find replacement items and to make sure that all the repairs were completed on schedule. He even managed to arrange for me to have replacement laptops within 24 hours. But, that was just the beginning. PURE also offered \$2,500 toward the installation of a lightning suppression system to prevent this from happening again. I liked the forward thinking. Not only did they handle every aspect of my claim with great professionalism, but they also made sure that my house would be safe from future strikes.”

## FINANCIAL REPORT

If the premiums earned by PURE during the year exceed all of the expenses, claims and reserves (“net underwriting profit”), PURE will credit that amount to the membership through Subscriber Savings Accounts (“SSA”).

In 2008, we did not achieve a net underwriting profit, principally due to the cost and amount of reinsurance we buy to protect against possible losses, as well as some actual claims made by our membership. We do not anticipate SSA allocations in 2009. As our membership grows and becomes more diversified, and our reinsurance costs are reduced in relation to our total writings, we are confident that Pure is on the path to profitability and future SSA allocations. Our business faces many exposures, including natural disasters, and any potential SSA allocations will be based on actual results.

## PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE

*Statement of Income (Statutory Basis)*

12 MONTHS ENDING	31 DEC 08	31 DEC 07
Premium		
Gross Written Premium	\$ 32,524,045	\$ 18,359,276
Reinsurance Ceded	\$ (25,717,769)	\$ (12,722,181)
Net Written Premium	\$ 6,806,276	\$ 5,637,095
Change in Ending Unearned Premium	\$ 58,057	\$ (3,647,796)
Net Earned Premium	\$ 6,864,333	\$ 1,989,299
Expenses		
Net Commission, Underwriting & Management Fees	\$ 3,965,525	\$ 1,981,306
Advertising, Marketing & Communications	\$ 1,033,591	\$ 945,157
Premium Taxes	\$ 710,908	\$ 502,848
Other Expenses	\$ 625,456	\$ 583,208
Total Operating Expense	\$ 6,335,480	\$ 4,012,519
Losses & Loss Expense Incurred (net of reinsurance)	\$ 3,520,627	\$ 933,324
Net Underwriting Gain (Loss)	\$ (2,991,775)	\$ (2,956,544)
Investment Income		
Gross Investment Income	\$ 1,970,414	\$ 1,648,755
Interest on Surplus Notes	\$ (2,783,198)	\$ (2,102,802)
Net Investment Income	\$ (812,784)	\$ (454,047)
Income from Operations (pre-tax)	\$ (3,804,559)	\$ (3,410,591)
Income Tax	\$ —	\$ —
Net Income	\$ (3,804,559)	\$ (3,410,591)

## FINANCIAL REPORT

## PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE

*Balance Sheet (Statutory Basis)*

12 MONTHS ENDING	31 DEC 08	31 DEC 07
<b>ASSETS</b>		
Bonds	\$ 48,789,859	\$ 46,183,334
Cash and Short-Term Investments	\$ 1,010,193	\$ 6,380,341
Premium Receivable – in the Course of Collection	\$ 1,539,193	\$ 989,970
Premium Receivable – not yet due	\$ 6,573,741	\$ 4,680,242
Other Assets	\$ 1,969,077	\$ 1,159,547
<b>Total Assets</b>	<b>\$ 59,882,063</b>	<b>\$ 59,393,434</b>
<b>LIABILITIES &amp; POLICYHOLDER SURPLUS</b>		
<b>Liabilities</b>		
Loss & LAE Reserves (net of reinsurance)	\$ 2,431,469	\$ 657,861
Accounts Payable	\$ 987,526	\$ 904,215
Unearned Premium (net of reinsurance)	\$ 3,589,739	\$ 3,647,796
Reinsurance Premium Payable (net of commissions)	\$ 4,775,753	\$ 3,716,909
Other Current Liabilities	\$ 236,373	\$ 1,342,989
<b>Total Liabilities</b>	<b>\$ 12,020,860</b>	<b>\$ 10,269,770</b>
<b>Policyholder Surplus and Other Funds</b>		
Surplus Notes	\$ 51,000,000	\$ 51,000,000
Policyholder Surplus Contributions	\$ 4,356,122	\$ 1,657,450
Unassigned Funds (surplus)	\$ (7,494,919)	\$ (3,533,786)
<b>Total Policyholder Surplus</b>	<b>\$ 47,861,203</b>	<b>\$ 49,123,664</b>
<b>Total Liabilities and Policyholder Surplus</b>	<b>\$ 59,882,063</b>	<b>\$ 59,393,434</b>

**INVESTMENT MANAGEMENT**

PURE's diversified portfolio of fixed income securities has very high credit quality and short duration. We had no direct exposure to equities, sub-prime/alt-a mortgages, or credit-default swaps. However, we were not completely immune in that we did suffer a significant loss on a Lehman Brothers' bond.

Over the year, PURE's investment portfolio experienced a total return of 3.28%\* – below expectations, but a 2008 result for which most insurers would happily trade.

**THE PURE GROUP OF INSURANCE COMPANIES**

In August of 2008, PURE Insurance Company was established as a reinsurance carrier designed specifically to provide additional capital and future capital flexibility for PURE. It was this new formation and pooling agreement that helped earn PURE the A- (Excellent) rating from A.M. Best.

PURE Insurance Company does not currently underwrite any risk other than to reinsure PURE, so all of the Group's financial resources are exclusively dedicated to PURE and its membership. When considered as a group, the PURE Group of Insurance Companies has \$ 111,906,106 in assets and \$94,468,895 of statutory policyholder surplus.

\* 2008 market returns on PURE's actively-managed portfolio prior to management and custodial fees.

# Getting Bigger, Staying Strong

Like all insurance companies, PURE realizes the tremendous benefits of diversification. We have capped our membership in places like Palm Beach and Hilton Head to mitigate the potential damage of a large event hitting our most concentrated areas. Over time, however, we will see the full benefits of diversification by expanding our membership into the Northeast.

By the end of 2008, we obtained licenses in New York, New Jersey, Connecticut and Washington, DC. We are confident that 2009 will bring thousands of new members to PURE from these and other states.

The East End of Long Island, home to some of the finest private residences in the country, presents an attractive opportunity for PURE.

We are proud to have partnered with some of the best and most professional independent insurance agents and brokers in the Hamptons to represent us. Each of these firms has a specialty practice serving successful families and brings their own unique strengths and service to their communities.

“We are thrilled to be able to partner with PURE in the Hamptons,” said James Amaden, principal of Amaden & Gay Agencies in East Hampton, NY. “Competitive pricing, flexible deductibles, tailored coverage and a financially-secure company that wants to write business out here – this is great news that we want to share with our community.”



**Long Island's East End is among the targeted areas in our expansion. We are proud to partner with some of the area's best and most professional brokers and agents. From left, Beth Gardner (Maran Corporate Risk Associates), George Yates (Dayton/Ritz/Osbourne), Tim Brenneman (Cook Hall & Hyde) and James Amaden (Amaden Gay).**

# The PURE Group of Insurance Companies

Privilege Underwriters  
Reciprocal Exchange

## **SUBSCRIBERS ADVISORY COMMITTEE**

Harold Bitler  
*Retired, previously Senior Vice  
President, Sun Trust Banks, Inc.*

Ross Buchmueller  
*President & CEO, Privilege  
Underwriters, Inc.*

Doug G. Fields (Secretary)  
*Senior Vice President, Oswald  
Trippe and Co.*

William Wilson III (Chairman)  
*CEO, RefocuX Inc.*

## **ATTORNEY-IN-FACT**

PURE Risk Management, LLC  
*(wholly-owned subsidiary of  
Privilege Underwriters, Inc.)*

## **ACTUARIAL SERVICES**

Perr & Knight  
*Boca Raton, FL*

## **AUDITOR**

Amper, Politziner, Mattia, P.C.  
*Edison, NJ*

## **LEGAL REPRESENTATION**

Carlton Fields, P.A.  
*Tallahassee, FL*

## **INVESTMENT MANAGEMENT**

General Re – New England Asset  
Management  
*Farmington, CT*

Pure Insurance Company

## **DIRECTORS**

J. Stephen Baine  
*Chief Strategy Officer, Nationwide  
Mutual Insurance Company*

Ross Buchmueller  
*President & CEO, Privilege  
Underwriters, Inc.*

James Carey  
*Principal, Stone Point Capital*

Peter Mundheim  
*Principal, Stone Point Capital*

Nicolas Zerbib  
*Principal, Stone Point Capital*

## **ACTUARIAL SERVICES**

Perr & Knight  
*Boca Raton, FL*

## **AUDITOR**

Amper, Politziner, Mattia, P.C.  
*Edison, NJ*

## **LEGAL REPRESENTATION**

Carlton Fields, P.A.  
*Tallahassee, FL*

## **INVESTMENT MANAGEMENT**

AAM – Asset Allocation and  
Management  
*Chicago, IL*

Privilege Underwriters Inc.

## **DIRECTORS**

J. Stephen Baine  
Ross Buchmueller  
James Carey  
Peter Mundheim  
Nicolas Zerbib

## **CORPORATE OFFICERS**

Ross Buchmueller  
*President & CEO*

Martin Hartley  
*Executive Vice President, COO*

Jeffrey Paraschac  
*Executive Vice President, CFO*

## **EXECUTIVES**

Robert Collins  
*Senior Vice President, General  
Manager*

Dennis Kirwin  
*Senior Vice President*

Mark Hill  
*Senior Vice President, Strategic  
Initiatives*

Keith Self  
*Senior Vice President, General  
Manager*

Gary Stephen  
*Senior Vice President, Claims & Risk  
Management*

Scott Blume  
*Vice President, Sales & Marketing  
Northeast*

Phil Figueiredo  
*Vice President, Controller*

Vivian Gee  
*Vice President, Underwriting*

Billy Johnson  
*Vice President, Underwriting*

Dale Tomlinson  
*Vice President, Risk Management*

Jack Willis  
*Vice President, Product Management*



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Charleston, SC 29407

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For promotional purposes, PURE refers to Privilege Underwriters Reciprocal Exchange, a Florida-domiciled reciprocal insurer. This material is descriptive only. The precise coverage offered is subject to the terms and conditions of the policies issued. The rights and responsibilities of members are subject to the Subscriber's Agreement and Power of Attorney. Coverage may not be available in all jurisdictions.

Certain sections of PURE's 2008 Member Report contain forward-looking statements based on outlooks, estimates, projections and assumptions. Words referring to expectations, anticipations, planning, beliefs, schedules, estimations and variations of these words and similar expressions are intended to recognize forward-looking statements, which include but are not limited to projections of revenues, earnings, cash flows, and SSA allocations. Statements are subject to certain risks and uncertainties. Many important factors could affect PURE in the future which could cause its results to differ materially from those expressed in the forward looking statement. Please consider such risk factors.

All content refers only as of the date of this report. The PURE Group of Insurance Companies does not assume any obligation to amend or publicly release any changes to forward-looking statements to reflect events, circumstances or modifications in expectations of this report.