

Privilege Underwriters Reciprocal  
Exchange / PURE Risk Management, LLC

Insurance Capital Build-Up  
Incentive Program Application

submitted  
December 6, 2006



**PURE Risk Management, LLC**  
3001 N. Rocky Point Drive, E.  
Suite 200  
Tampa, FL 33607  
Phone: 813-367-3501  
Fax: 813-367-3502

December 5, 2006


State Board of Administration  
Florida Hurricane Catastrophe Fund  
Insurance Capital Build-Up Incentive Program  
PO Box 13300  
Tallahassee, FL 32317-3300

To Whom It May Concern:

Please accept the attached application for the Insurance Capital Build-Up Incentive Program on behalf of Privilege Underwriters Reciprocal Exchange / PURE Risk Management, LLC. Please direct all inquiries and correspondence to my attention. I can best be reached at 914-328-3298.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'JP', with a long horizontal flourish extending to the right.

Jeffrey Paraschac  
Chief Financial Officer  
PURE Risk Management, LLC

### **Confidentiality Request**

Applicant considers the business plan it has detailed in its application to be confidential and proprietary trade secret information per section 812.081, Florida Statutes, and requests that the State Board of Administration treat such information confidential and exempt from public disclosure under section 119.07(1), Florida Statutes, pursuant to the exemptions contained in sections 815.04(3) and 815.045, Florida Statutes.



## **Part I: Basic Information**

### Contact Information:

Application Date: **December 1, 2006**

Insurer's\* Name ("Applicant"\*): **Privilege Underwriters Reciprocal Exchange / PURE Risk Management, LLC**

NAIC #: **Provided upon receipt**

Group Name, if applicable: Group NAIC #: **n/a**

Address of Administrative Office: **One North Lexington Avenue, 14<sup>th</sup> Floor, White Plains, NY 10601**

Contact Name and Title: **Jeffrey Paraschac, CFO**

Telephone Number: **914-328-7398**

Fax Number: **914-328-3883**

Email Address: **jparaschac@privilegeunderwriters.com**

### Surplus Note\* Requested:

Principal Amount of Surplus Note Requested: **\$20,000,000**

Date funds are desired: **No later May 31, 2007**

Amount of New Capital\* contributed: **\$40,000,000 (estimated)**

Anticipated date New Capital infused: **\$10,000,000 by 1/1/07 and the remaining by May 31, 2007**

Will the New Capital be encumbered? **Yes** If yes, describe: **\$10,000,000 of the \$40,000,000 in capital will be in the form of a surplus note. The remaining \$30,000,000 will be unencumbered.**

Source of New Capital: **The bulk of the new capital, \$30,000,000 (estimated), will come from individual residents of Florida. Florida residents subscribing to PURE will make a surplus contribution equal to 50% of their first year's homeowner's premium (20% for all other lines). The \$10,000,000 Surplus Note will be provided by Trident III, L.P & Trident III Professionals Fund, L.P. Trident III, L.P. and Trident III Professionals Fund, L.P. are majority**

**owners of Privilege Underwriters, Inc., the parent company of PURE Risk Management, LLC.**

Address for the source of New Capital: **Trident III, L.P. & Trident III Professionals Fund, L.P. – c/o Stone Point Capital, 20 Horseneck Lane, Greenwich, CT 06830. If required by the Insurance Capital Build-up Incentive Program (“Program”) and consented by the subscribers, the addresses of all new subscribers (estimated at more than 2,500 subscribers) will be provided as part of PURE’s quarterly reporting.**

Contact Name for the source of New Capital: **Peter Mundheim (Stone Point Capital). Ross Buchmueller will serve as the initial chairman of the Subscriber’s Advisory Committee which represents the interest of the policyholders.**

Telephone Number for the source of New Capital: **Peter Mundheim: 203-862-3120. Ross Buchmueller: 914-328-7381.**

Fax Number for the source of New Capital: **Peter Mundheim: 203-862-3121. Ross Buchmueller: 914-328-3883.**

Email Address for the Contact for the source of New Capital:  
**pmundheim@stonepoint.com, rbuchmueller@privilegeunderwriters.com**

Name of depository for New Capital: **Bank of America**

Address of depository for New Capital: **101 E. Kennedy Blvd., Tampa, FL 33602**

Contact Name for the depository and Title: **Rick Chiappetta, SVP, Client Manager**

Telephone Number for the depository: **888-852-5000 x1057**

Fax Number for the depository: **203-978-7508**

Email Address for the Contact at the depository:  
**rick.j.chiappetta@bankofamerica.com**

#### Financial Information:

Current Surplus\* amount as of latest month end: **\$0 – New Formation being filed in conjunction with application to this Program**

Surplus as of most recently filed financial statement with the Office\*: **\$0 – New**

**Formation**

Annualized Net Written Premium\* as of latest month end: **\$0 – New Formation**

**being filed in conjunction with application to this Program** Annualized Net

Written Premium as of most recently filed financial statement with the Office: **\$0 –**

**New Formation being filed in conjunction with application to this Program**

Current ratio of Net Written Premium to Surplus as of latest month end: **\$0 – New**

**Formation being filed in conjunction with application to this Program**

Date Applicant estimates reaching the Minimum Writing Ratio\*, if not already obtained:

see **Business Plan**.







### Part III: Interrogatories

Responses provided to the interrogatories may be added to the Surplus Note under the section entitled "Supplemental Agreements."

1. Will the New Capital contribution be in excess of the Minimum Contribution\*?

**Yes.**

2. Have profits been retained to grow Surplus over the last five years? If yes, how much has been retained or contributed to Surplus each year?

**n/a. PURE is a new formation.**

3. Will profits be retained to grow Surplus should the Applicant be granted the Surplus Note proceeds associated with this Program?

**Yes. The applicant intends to fully utilize Subscriber Savings Accounts in order to grow surplus to the benefit of its members.**

4. Does the Applicant have a related company or other person or entity that is willing to guarantee the Applicant's Surplus Note under this Program? If yes, provide details.

**No.**

5. Although not required, is the Applicant willing to commit collateral for the purpose of securing the state's interest in the proceeds of the Surplus Note?

**No.**

6. Although not required, is the Applicant willing to deposit 10% or more of the proceeds derived from the Surplus Note in an account managed by the state?

**Yes. PURE is currently in discussion with third-party investment managers, but would be open to the State's management of as much as 100% of the note.**

7. Although not required, is the Applicant willing to prepay interest and principal for one year in advance?

**Yes.**

8. Are there any commitments that the Applicant is willing to make as a condition of issuing the Surplus Note that would lessen the risk of default?

**The State's surplus note would maintain seniority over all other contributed capital – policyholder contributions, SSA, retained earnings, and Trident Surplus Note.**

9. Has the Applicant fully placed its 2006 hurricane season reinsurance program?

**n/a. Applicant will begin writing business in January, 2007. We are currently in discussions with several high-quality domestic, Bermuda-based and London-based reinsurers.**

10. If the 2006 hurricane season reinsurance program has been fully placed, can the Insurer withstand a 1 in 100-year event?

**n/a. With projected 2007 reinsurance cover, PURE will be able to withstand a 100 year event as modeled in RMS v6.0 (both historic and stochastic models).**

11. What is the Applicant's current writing ratio?

**n/a. Projected 2007 GWP to surplus ratio is 1.3, increasing to 2.0 by 2009 – NWP to surplus ratio is projected at 0.4/1.0 in 2007 increasing to 1.1/1 by 2009**

12. What was the Applicant's writing ratio for the last five years?

**n/a. PURE is a new formation.**

13. Is the Applicant willing to commit to a writing ratio in excess of the minimum for the duration of the Surplus Note? If so, note any adverse impact upon policyholder security.

**Please refer to Business Plan Executive Summary.**

14. Does the Applicant have a rating from a rating agency? If so, indicate the agency and the rating, how long the rating has been in effect, and whether or not the Applicant has ever been downgraded by a rating agency and the circumstances.

**Obtaining a rating from A.M. Best is critical to the long-term success of PURE. Our intent is to manage the business to the capital standards of an "A" company (using AM Best's Capital Adequacy Rating Model), and we will seek to establish a rating that will satisfy lender requirements prior to launch. We are in preliminary discussions with both A.M. Best and Demotech.**

15. Is the Applicant currently being investigated by any federal or state regulatory authority? **No.**

16. Is the Applicant under any type of regulatory control or order? **No.**



## **Part IV: Documents which must be provided with this Application**

1. A detailed business plan. **Attached**
2. A copy of the Applicant's most recent audited financial statement and copies of the audited financial statements for the prior two years. **n/a – PURE is a new formation**
3. A copy of the Applicant's most recent annual statement of the National Association of Insurance Commissioners required to be filed by authorized insurers pursuant to Section 624.424, F.S. **n/a – PURE is a new formation**
4. A resolution from the Applicant's governing board which contains the following:
  - a. A statement clearly authorizing the Applicant to participate in the Program;
  - b. A statement that the Applicant's governing board has reviewed the Surplus Note, Form SBA 15-2, which is available on the Board's website, [www.sbafla.com](http://www.sbafla.com), under "Insurance Capital Build-Up Incentive Program" then "Surplus Note," and that the Applicant is able to comply and intends to comply with the requirements of the Surplus Note including the requirement that the New Capital be unencumbered;
  - c. A statement that the Applicant, if selected, intends to meet all the requirements of the Program including but not limited to meeting the Surplus and writing ratios.

**Attached in unexecuted form. Subscriber's Advisory Committee will execute when PURE receives its COA.**

5. Provide a list of all officers and board members.

### **Privilege Underwriters Reciprocal Exchange (Subscriber's Advisory Committee):**

- Ross J. Buchmueller, Chairman
- George F. Bullen, Secretary
- William Wilson

**PURE Risk Management, LLC (Attorney-in-fact) Member:**

- Ross J. Buchmueller, President / Organizing Member

**Privilege Underwriters, Inc. (Parent of Attorney-in-fact) Officers:**

- Ross J. Buchmueller, President & CEO
- Martin Hartley, Secretary & COO
- Jeffrey A. Paraschac, Treasurer & CFO

6. Provide biographical information on the executive officers (e.g., CEO, CFO, COO).

**Ross Buchmueller**

*President & Chief Executive Officer*

Mr. Buchmueller most recently served as President of AIG Private Client Group, a personal lines company providing insurance and risk management services to high net worth individuals and families. Ross joined AIG in 1999 to establish the AIG Private Client Group division. Under Mr. Buchmueller's leadership, AIG Private Client Group grew to approximately \$500M gross written premium with consistent underwriting profit in just over six years. Prior to joining AIG, Mr. Buchmueller spent 12 years with the Chubb Group of Insurance companies, and served as Senior Vice President for Chubb Insurance Company Europe.

Mr. Buchmueller serves on the National Steering Committee for the YWCA Global Campaign. In 2004, Crain's New York included Mr. Buchmueller in its annual "40 under Forty" feature of New York's rising stars. Mr. Buchmueller holds a BA from Trinity College, Hartford Connecticut.

**Martin Hartley**

*Secretary & Chief Operating Officer*

Mr. Hartley joined Privilege Underwriters, Inc from AIG Private Client Group where he served as the Western Zone Executive. In that role, Martin had general management responsibility for a region which generated approximately 1/3 of the division's total premium and employed 110 people across 11 states. Prior to assuming the Zone Executive position, Mr. Hartley performed a variety of underwriting roles in his six years at AIG, including two years as the Chief Underwriting Officer. Prior to joining AIG, Martin served as Underwriting Manager for Chubb Personal Lines in the UK for two years. Mr. Hartley began his career in insurance as a loss adjuster, before joining Hiscox Syndicate 33 at Lloyd's where he underwrote fine art and high value homeowners and attended the Lloyd's graduate training program. Mr. Hartley holds a BS in Economics from the University of Wales in the UK.



**Jeffrey Paraschac**

*Treasurer & Chief Financial Officer*

Prior to working for AIG Private Client Group, Mr. Paraschac spent three years in strategic planning, M&A and financial management for Chubb & Son, serving as VP, Finance for its Caldecott Holdings subsidiary. Jeff also has eight years of strategic and operational consulting experience with Deloitte Consulting, Luminant Worldwide, and Capital Consulting & Research. Mr. Paraschac holds an MBA from the University of Michigan and a BS from Fairfield University.

7. A signed copy of the attestation in Part IX of this application.

**See Part IX**

8. If any items listed in this Application are not provided, please identify the item and provide an explanation as to why it was not provided.
- A copy of the Applicant's most recent audited financial statement and copies of the audited financial statements for the prior two years. This requirement is not applicable as PURE is a new formation insurer whose application is pending approval at the Office of Insurance Regulation.
  - A copy of the Applicant's most recent annual statement of the National Association of Insurance Commissioners required to be filed by authorized insurers pursuant to Section 624.424, F.S. This requirement is not applicable as PURE is a new formation insurer whose application is pending approval at the Office of Insurer Regulation.



#### **Part IV.1 – Business Plan**

Applicant has provided their Business Plan in Part II of this application. Please refer to the tab labeled **Part II Business Plan**.



## **Part IV.2 – Audited Financial Statements**

Applicant is a new company that recently applied for a Certificate of Authority from the Florida Office of Insurance Regulation and does not have audited financial statements at this time.



### **Part IV.3 – NAIC Annual Statement**

Applicant is a new company that recently applied for a Certificate of Authority from the Florida Office of Insurance Regulation and has not filed a NAIC Annual Statement.





#### **Part IV.4 – Board Resolution**

Attached is the unexecuted Subscriber's Advisory Committee form. The form will be executed by Applicant when it is approved for a Certificate of Authority from the Florida Office of Insurance Regulation.

## **Privilege Underwriters Reciprocal Exchange**

Subscriber's Advisory Committee Resolution

November 16, 2006

Re: Application to Florida Insurance Capital Build-Up Fund

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The Subscriber's Advisory Committee of the Privilege Underwriter's Reciprocal Exchange (PURE) hereby authorizes its attorney-in-fact, PURE Risk Management, LLC to apply for a surplus note through the Florida Insurance Capital Build-Up Fund.

PURE's Subscribers' Advisory Committee has reviewed the Surplus Note, Form SBA 15-2, (attached) and that the Applicant is able to comply and intends to comply with the requirements of the Surplus Note including the requirement that the New Capital be unencumbered.

PURE, if selected, intends to meet all the requirements of the Program including but not limited to meeting the minimum Surplus commitment. However, PURE does not expect to meet the minimum Net Written Premium to Surplus ratio of 2.0 to 1.0 because it would place too great of a strain on its capital base.

By: \_\_\_\_\_  
Chairman Subscribers' Advisory Committee

Attest: \_\_\_\_\_  
Secretary



## **Part IV.5 – List of Officers and Directors**

### **Privilege Underwriters Reciprocal Exchange (Subscriber's Advisory Committee):**

- Ross J. Buchmueller, Chairman
- George F. Bullen, Secretary
- William Wilson

### **PURE Risk Management, LLC (Attorney-in-fact) Member:**

- Ross J. Buchmueller, President/Organizing Member

### **Privilege Underwriters, Inc. (Parent of Attorney-in-fact) Officers:**

- Ross J. Buchmueller, President & CEO
- Martin Hartley, Secretary & COO
- Jeffrey A. Paraschac, Treasurer & CFO



## **Part IV.6 – Biographical Information**

### **Ross Buchmueller**

*President & Chief Executive Officer*

Mr. Buchmueller most recently served as President of AIG Private Client Group, a personal lines company providing insurance and risk management services to high net worth individuals and families. Ross joined AIG in 1999 to establish the AIG Private Client Group division. Under Mr. Buchmueller's leadership, AIG Private Client Group grew to approximately \$500M gross written premium with consistent underwriting profit in just over six years. Prior to joining AIG, Mr. Buchmueller spent 12 years with the Chubb Group of Insurance companies, and served as Senior Vice President for Chubb Insurance Company Europe.

Mr. Buchmueller serves on the National Steering Committee for the YWCA Global Campaign. In 2004, Crain's New York included Mr. Buchmueller in its annual "40 under Forty" feature of New York's rising stars. Mr. Buchmueller holds a BA from Trinity College, Hartford Connecticut.

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### **Jeffrey Paraschac**

*Treasurer & Chief Financial Officer*

Prior to working for AIG Private Client Group, Mr. Paraschac spent three years in strategic planning, M&A and financial management for Chubb & Son, serving as VP, Finance for its Caldecott Holdings subsidiary. Jeff also has eight years of strategic and operational consulting experience with Deloitte Consulting, Luminant Worldwide, and Capital Consulting & Research. Mr. Paraschac holds an MBA from the University of Michigan and a BS from Fairfield University.



## **Part V: False or Misleading Statements**

Any application or any documents provided with the application which contain false or misleading statements, will, if discovered prior to the execution of a Surplus Note, cause the application to be rejected, and if discovered after the execution of a Surplus Note, will cause the Surplus Note to be in default.

## **Part VI: Limitations**

The Insurer is limited in how funds from the Surplus Note can be used. Funds received from this Surplus Note cannot be invested in any items not authorized under Part II of Section 625, F.S. The Board reserves the right to confirm the use of the funds at any time during the duration of the Surplus Note.

## **Part VII: Selection Period**

The Applicant and its agents, officers, principals, and employees will not engage in any written or verbal communication regarding its application or its participation in this Program during the "selection period" (defined below) with the Office or the Board or any employee thereof, whether or not such individual or employee is assisting in the evaluation of applications. Any unauthorized contact may disqualify the Applicant from further consideration. Normal business communications not related to the processing of the Surplus Note are allowed.

The Applicant will not engage in any lobbying efforts or other attempts to influence the Office, the Board, or any financial or insurance consultant employed by the Board in an effort to influence the Board's decision with respect to executing the Surplus Note with a particular Insurer or Insurers under the Program. Any and all such efforts made by the Applicant or its agents, officers, principals, employees, or lobbyists will be disclosed to the Executive Director of the Board within five calendar days of its becoming known.

The "Selection Period" for this application begins on the date the application is submitted and continues until the Applicant is notified that it was or was not selected to participate in the Program.



## **Part VIII: Delivery Address; Number of Copies; Format; Costs**

The Board shall not be liable or responsible for any costs incurred by any Applicant filing this application.

Submit ten (10) bound copies of the application and all accompanying documentation, an unbound original document, and an electronic copy of the responses on a CD in PDF format. All materials shall be in the order set forth in the application, identified, and divided by part. Responses to each part should be kept together and include a divider page between each part.

The application, along with all the required documentation shall be sent to the Board at the following address:

State Board of Administration of Florida  
c/o The Florida Hurricane Catastrophe Fund  
P.O. Box 13300  
Tallahassee, FL 32317-3300

## **Part V-VIII**

Privilege Underwriters Reciprocal Exchange has read and understands the requirements imposed by the following parts of the Insurance Capital Build-Up Incentive Program Application:

Part V: False of Misleading Statements

Part VI: Limitations

Part VII: Selection Period

Part VIII: Delivery Address; Number of Copies; Format; Costs

Privilege Underwriters Reciprocal Exchange agrees to comply with the requirements specified in the above-referenced parts of the application.



## **Part IX: Attestation**

To be eligible and to be considered for participation in the Program, Applicants must meet each of the statutory requirements listed below. To certify that the Applicant meets each requirement, check each of the boxes which follow the list of requirements.

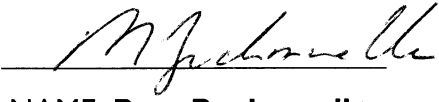
1. The Surplus Note amount sought by the Applicant, or if the Applicant is part of a group, the amount sought by all group members when added together, does not exceed \$50 million.
2. An Applicant filing an application prior to July 1, 2006, must be able, prior to the execution of the Surplus Note, to show that the New Capital contributed equals the amount of the approved Surplus Note. The New Capital contributed must be in the form of Cash\* or Cash Equivalents\* as defined in Rule 19ER06-3, F.A.C.
3. An Applicant filing applications after July 1, 2006, must be able, prior to the execution of the Surplus Note, to show that the New Capital contributed is twice the amount of the approved Surplus Note. The New Capital must be in the form of Cash or Cash Equivalents.
4. Applicant's Surplus, New Capital contributions, and the Surplus Note must total at least \$50 million.\*
5. Applicant must be willing to commit to meeting a Minimum Writing Ratio of Net Written Premium to Surplus of 2:1 for the 20-year term of the Surplus Note.\*

✓ Affirms Applicant meets minimum qualifications\*

✓ Affirms Surplus Note, Form SBA 15-2, has been reviewed and terms and conditions contained therein can be met by Applicant.\*

✓ Acknowledges and accepts all terms and conditions of Surplus Note.\*

We are each, respectively, executive officers of the Insurer making this application,  
acting within our authority in making the declarations listed in this application.

BY: 

TYPED NAME: **Ross Buchmueller**

TITLE: **President & CEO**

DATE:

BY: 

TYPED NAME: **Jeffrey Paraschac**

TITLE: **Treasurer & CFO**

DATE:

\* While applicant projects total surplus in excess of \$50 million, applicant cannot attest to the \$50 million total surplus threshold due to the business plan's reliance on capital contributed by future policyholders. Applicant is unlikely to adhere to the Minimum Writing Ratio of Net Written Premium to Surplus of 2:1.

**Compliance with Annual Rate Filings  
Required Pursuant to Section 627.0645, Florida Statutes**

Privilege Underwriters Reciprocal Exchange is currently in the process of filing their initial rate filing with the Office of Insurance Regulation.