Dear Fellow Members,

For the tenth year, I have the privilege of sharing with you the most recent year’s activities and results of your insurance company. It was a year where we had many opportunities to fulfill our purpose of making you smarter about risk, safer from preventable hazards and more resilient when things do happen—all with the hope that you can pursue what you are passionate about with greater confidence.

It can be tempting in any business to reflect upon a year through facts and figures, especially in a business like insurance where large sums of data are essential for sound decision-making. We will certainly share a lot of information about premiums and claims data, but our business is all about people. This year we have the opportunity to share more of your stories that will hopefully enlighten the membership with opportunities to prevent future claims.

I’m also excited to share stories of the extraordinary dedication of the men and women of PURE. I am so proud to work alongside the nearly 500 employees who work so hard in the service of our membership and the nearly 800 independent insurance brokerage firms who connect us and serve you so well.

THE WEATHER NEVER STOPS

It felt like every month—sometimes every week—we were preparing to respond to a devastating weather event in a different part of the country. A massive hailstorm or a hurricane can draw resources away from the importance of serving the routine needs of our membership and create a “whack-a-mole” scenario where we are chasing one response at the expense of our everyday service demands. In 2016, we accelerated the staffing of full-time catastrophe adjusters who have the talents and the personal flexibility to travel the country to ensure that we deliver the same level of professionalism during a hurricane as we would during a more personal, localized event. And this team was busy in 2016.

We responded to 33 distinct hailstorm events that caused nearly $42,000,000 in damage. These are complicated losses and damage may not be noticed for months. We are actively building tools that combine aerial imaging and detailed weather data that will allow us to alert members to likely roof damage. This allows us to promptly begin repairs on damaged roofs and reduces the need for costly engineering services to verify damage.

Hurricane Matthew severely affected our membership on Hilton Head Island, South Carolina. We handled more than 500 claims at a cost to PURE that was greater than $15,000,000. The cost was even greater when you consider the financial impact of sizable hurricane deductibles borne by our membership. It can be expensive to insure luxury properties in coastal areas—and these hurricane deductibles keep premiums from being even higher, but they came as a bit of a surprise to more than a few members. Our network of independent brokers performs well, gives sound advice and educates our members about how their coverage works. They can do even more if we give them more product choices. Based on member feedback, we are exploring options for lower hurricane deductibles, albeit at a higher premium.

Damage from burst pipes created claims totaling more than $32,000,000. Considering how mild the winter was, this was not a good result. Our Risk Management team is exploring more and more solutions to automatically shut off the flow of water to prevent these losses (or at least reduce their severity) as well as encourage our membership to maintain higher heat settings on those cold days. More than half of you insure more than one home with us, so we should be better at helping you manage risk in a home that is often unoccupied. We’re going to improve.
THE MORE PERSONAL CATASTROPHES

Most of the claims we handle are not the result of some widespread weather event, but of a much more local and personalized nature.

We handled more than 12,000 car accidents and other types of losses to vehicles. Our team of more than 50 PURE Member Advocates® was able to settle more than half of those claims with the same person who answered the original phone call. That is unheard of in an industry that is typically designed to take a message, forcing you to tell your story to another person. We have been engaged in strategies to help our members help their families end the risks of distracted driving. Having a 16-year-old driver in my household has motivated me to be more diligent in this area. The auto insurance industry is anticipating its gradual demise due to safer—and eventually autonomously driven—vehicles. In the meantime, cell phones are ensuring that insurance is used more than ever. We need to reduce the instances of distracted driving—for everybody's sake.

2016 saw an increase in the frequency of large fires with total claim payments exceeding $30,000,000 (and the start of 2017 is continuing that trend). We responded to 13 fires with an actual paid or estimated rebuilding cost greater than $1,000,000. The financial cost is only part of the equation. Our Member Advocates and Claims Adjusters are learning more and more about human resiliency and the importance of helping you return to normalcy after a traumatic event. We want you to have the money you need to repair or replace damaged property, a partner to help you save time as you face the rebuilding process and a friend to help you recover.

In the pages that follow, I hope you will find the stories shared by your fellow PURE members to be an informative look at how to prevent future losses—or at least provide comfort knowing you have a strong and compassionate partner if a loss were to happen.

ENHANCING THE MEMBER EXPERIENCE

We continue to make it easier to repair your car after an accident. Members used PURE Express more than 1,200 times. This mobile app allows members, after a minor accident, to snap a few pictures and have a firm estimate of repair costs in a matter of hours. I hope you can avoid the collision, but if not, I encourage you to try PURE Express and save some time.

We replaced our online payment system with a more flexible and intuitive system that links to your Member Portal account. We even made it easier to pay installments with a credit card (subject to a minimum amount), which addresses one of the more frequent requests we get.

We have just released an electronic signature capability. While this may be more useful for new members just signing up, it might come in handy when you have a claim, or when adding new policies or any newly required regulatory paperwork.

We created a new business unit called PURE Programs. This underwriting and service facility allows us to satisfy some of the high-risk needs of our members (and prospective members). We provide a similar standard of policy administration, billing, risk management and claims services, but we allow the risks to be underwritten by third parties who feel comfortable with the increased exposures at higher prices. We started by insuring homes in Florida that may not be fully mitigated against hurricanes, might be rented for most of the year or face other increased risk factors. We’re less than a year in, but the solutions have been very well received.

The parent company of PURE's Attorney-in-Fact has recently reached an agreement to acquire a fine arts services company, The Haven Art Group. I’ve known the CEO and Founder, Claire Marmion, for many years and have great respect for her and her team. Today, Haven operates in two areas: they handle insurance claims for museums, galleries and private collectors who need expertise in restoration and valuation, and they provide curatorial services to help private collectors manage all aspects of their collection, including preparation of valuations, catalogues and other documentation, as well as coordinating the shipping and installation of works. PURE has used Haven for years to complement our claims team. Going forward, while Haven will continue to serve commercial insurance clients as a way to allow them to hone their skills and stay current with the latest and greatest techniques in restoring, preserving and enhancing the value of art, the majority of their time will be spent adding value to the thousands of PURE members with substantial collections of artwork and valuable jewelry.

Your enthusiasm continues to be one of our primary measures of success. Our Net Promoter Score increased again to 67.4.
THE MOST AWARDED HIGH NET WORTH INSURER

In 2016, the trophy case for the PURE team became a bit more crowded.

We were recognized for the working environment at PURE. I believe strongly that you should care about this as you evaluate us. A highly engaged workforce means we rarely (if ever) reassign a claim due to a resignation. It means our team will go above and beyond to serve you because they realize that serving you is the reason for our existence. Fortune Magazine included PURE in its list of 40 Best Places to Work in Financial Services and recognized PURE as a top employer for women. SmartCEO included PURE among its winners for Best Corporate Culture.

We were recognized for growth and innovation. Inc. Magazine named us to their list of 5,000 Fastest-Growing Companies in America. We won two awards for innovation from the National Association of Mutual Insurance Companies (NAMIC). They applauded the efforts we took to educate our members about cyber risks and our proactive engagement through The PURE Situation Room™. NAMIC has been an important and highly respected partner since our founding, and we very much appreciate the recognition from such a great organization. We were also included in SmartCEO’s Future 50 list of companies that are making an impact in their markets.

Arguably, the highlight among all of our awards came early in the year when The Family Wealth Report awarded PURE as the 2016 best insurer for high net worth families. A prestigious group of independent wealth management professionals cited our commitment to transparency and efforts to reduce conflicts as the primary reasons we have separated ourselves from other insurers in the category. (Spoiler alert: Just before going to print with this report, PURE won the 2017 award as well.)

ANOTHER YEAR OF STRONG FINANCIAL RESULTS

Our financial results for 2016 were excellent. We grew direct written premiums by over 30% to just over $640,000,000, and we produced a solid underwriting result with a PURE Group Net Combined Ratio of 99.8%.

These results do not include the impact of surplus contributions, which continue to build our financial strength and allow us to price our products competitively. And it does not include our improved investment results. We significantly increased our invested assets and became more fully invested. We enjoyed almost $15,000,000 of returns from investment activities (before the cost of surplus notes). PURE saw surplus capital grow from operations by almost $35,000,000.

We also executed our rights to surplus notes issued to member companies of XL Catlin, one of the minority investors in our holding company. This low-cost source of capital is just one of the many ways our relationship with XL Catlin benefitted us in 2016. Our investors (Stone Point Capital, KKR and XL Catlin) continue to believe they will be rewarded if we pursue our membercentric strategy.

In total, the statutory surplus capital of the PURE Group of Insurance Companies grew to over $312,000,000 at the end of 2016, with most of that growth occurring within PURE. I’m delighted to share that we have received approval from our regulators to make an allocation of $25,000,000 into Subscriber Savings Accounts. This marks the fifth consecutive year of allocations and a larger allocation than all previous combined.

I feel like every year I share my optimism and enthusiasm for the year(s) ahead, and this year is no different. We see so much opportunity to add new capabilities and to enhance the service we offer our membership. We have a strong and deep leadership team, and we see opportunities for continuous improvement throughout all aspects of our company. Our network of fiercely independent brokers is stronger than ever and ready to put your interests first. The stars are aligning for another great year for your insurance company.

On behalf of our entire team, I want to share what a privilege it is to serve you all, and I thank you for your continued support of PURE.

Sincerely,

Ross Buchmueller, President & CEO
Dear Fellow Members,

I am pleased to report that the PURE Subscribers’ Advisory Committee had another busy and productive year.

We traveled the country, meeting with PURE members and some of the best independent brokers in the business.

• **March:** We attended a conference in Florida with several hundred of the top brokers in the high net worth category—many of whom are PURE members themselves.

• **June:** We visited one of PURE’s newer offices in Charleston, South Carolina. In addition to a full working session, we hosted a dinner with the top insurance brokers in the Southeast and a working lunch with a wonderful group of PURE members from the Charleston community.

• **December:** We visited Scottsdale, Arizona, and hosted a dinner with PURE members, most of whom are the driving force behind Scottsdale’s 5 Arts Circle, a dynamic organization that has fueled the growth of the arts in the Valley (and an organization that PURE proudly supports).

All of these events have provided a forum for the Committee to learn from and engage with those who make PURE so special. We’ve learned that some joined PURE because of cost savings, while others joined simply because their broker advised them it was the best option. But over time, we see that their enthusiasm for PURE is amplified as they experience the service and begin to see for themselves how an alignment of interests, a commitment to transparency and a strong sense of purpose drives this great company.

We added valuable skills and diversity to our committee. We welcomed Jodi Lash to the Committee. Jodi and her husband, Richard, live in Dallas, Texas, and have been PURE members since 2012. Jodi is an experienced insurance regulatory attorney who developed her career with dynamic growth companies, including Progressive and National Interstate. For the past 22 years, she has served as an independent practitioner helping insurance companies navigate the complicated state regulatory and licensing web. Jodi’s national involvement with the Red Cross and her leadership efforts with a number of local non-profit organizations have given her an additional lens into human resiliency, one of the key aspects of PURE’s purpose. We are delighted to have her on board.

We made the decision to hire PwC as our new auditors. Since the inception of PURE in 2006, EisnerAmper, a leading regional accounting firm, has been the independent auditor for the PURE Group of Insurance Companies. We have enjoyed a strong relationship with the firm and have appreciated their insights and professionalism along the way. As PURE approaches its first billion dollars of written premium, the professional service needs of the company are changing. In 2016, the Committee, along with the management team and Board of Directors of the holding company, participated in a months-long evaluation of firms to serve as the auditor for the member companies of the PURE Group. After reviewing proposals from all “Big 4” firms and the incumbent auditors, we selected PwC to serve as our auditor for 2017 and beyond. PwC has deep experience in the insurance industry and a particular expertise in reciprocal insurers. We have met face-to-face with the leadership of the PwC insurance practice and the partner who will serve us, and we are convinced that their experience and commitment will afford us all even greater confidence in the coming years.

In 2017, we will continue to engage with the PURE membership, individually and as a group. We will also continue to work closely with PURE’s senior management team to offer suggestions and serve as a sounding board to create an even greater member experience. On behalf of the Committee, we welcome your feedback. The enthusiasm of the PURE membership is one of the keys to the success of this great company, and I appreciate your continued support of PURE.

James H. McLaughlin, Chairman, Subscribers’ Advisory Committee
The PURE Group and Its Affiliates

The PURE Group of Insurance Companies (PURE Group) is a specialist group of companies with common management, serving the personal insurance needs of successful families across the United States. Collectively, the companies that make up the PURE Group provide the PURE membership with excellent financial strength and capital flexibility and a strong sense of alignment of interests between policyholders and an elite group of outside shareholders.

At the heart of the PURE Group is a member-owned insurer, Privilege Underwriters Reciprocal Exchange (PURE).

- Members pay their premiums to PURE and contribute surplus capital for the first five years of membership. All in, the cost of PURE policies (inclusive of surplus contributions) has led to members reporting significant savings—an average of 20% or more annually on Homeowners insurance.

- While most members view surplus contributions as part of the overall cost of their insurance, they are separate from typical premiums and much more efficient. For starters, there are no fees paid to the Attorney-in-Fact relative to surplus contributions, and they are not shared with reinsurers (including our pooled insurer). This helps improve operating results.

- Claims are typically paid from premiums and shared with participating reinsurers (including our pooled insurer). There is no risk of assessments in a bad year, and members participate in the good outcomes through Subscriber Savings Accounts (SSAs). For 2016, our allocation of $25,000,000 to SSAs is one of the more tangible examples of an alignment of interests.

- Members also play an important part in the governance of the company through a Subscribers’ Advisory Committee (SAC). This group provides a voice of the membership to management and has the responsibility of procuring and reviewing the annual independent audit for PURE.

Privilege Underwriters, Inc. (PUI) is a holding company for a collection of affiliated businesses that are shareholder-owned and play an important role in making the PURE Group work well. These companies include PURE Insurance Company (PIC), PURE Risk Management LLC (PRM), and PURE Programs, LLC. Together, they afford an entrepreneurial environment for employees, a source of additional capital and capital flexibility for the insurance companies and opportunities for investors.
• PIC is a stock insurer that is pooled with PURE and shares common management. PIC provides the membership with real capital support and tremendous capital flexibility while reinforcing alignment of interests between the parties.
  • A.M. Best treats the PURE Group of Insurance Companies (PURE and PIC) as “pooled capital” because the pooling agreement requires the companies to combine their resources and obligations and to share in premiums, losses and almost all expenses.
  • Because PIC does not write any direct business itself, the pooling agreement means that PIC stands behind PURE with all of its resources. PIC brings capital flexibility to the PURE Group since PIC or PUI can easily access capital markets.
  • The agreement also helps to strengthen alignment by ensuring that the investor-owned part of the PURE Group cares about underwriting quality.

• In 2015, with the formation of Privilege Group Holdings (PGH), PUI was recapitalized with investments from two of the world’s preeminent private equity investors—Stone Point Capital and KKR—in addition to XL Catlin, a leading global insurance company. This recapitalization supports PURE’s continued independence and provides exceptional access to capital.

The PURE Group of Insurance Companies enjoys a Financial Strength Rating of A- (Excellent) from A.M. Best. This rating currently holds a “Positive Outlook.”

PURE Risk Management LLC (PRM) serves as the Attorney-in-Fact (independent management company) for PURE. PRM is paid a fee to provide marketing, underwriting and claims administration services for PURE. In turn, PRM provides the human, technological and operational resources required to run the insurance operations of PURE.

PURE Programs is a newly created Managing General Underwriter that provides solutions to PURE members and other high net worth consumers who face complex or extreme risks, but demand the highest levels of service. PURE Programs is paid a commission by independent insurers who assume these risks, typically at much higher premiums.

1 Average annual savings on homeowners insurance for members reporting prior carrier premiums from Jan. 2011 through December 2016. Actual savings, if any, may vary.
2 As of July 12, 2016.

PURE’s Subscribers’ Advisory Committee. From left: William W. Wilson III, Douglas Fields (Secretary), Jodi Lash, James H. McLaughlin (Chairman), Ross Buchmueller, Joey Cummings, and Richard Jacobs. For additional information and bios, visit pureinsurance.com/sac. To contact the SAC, email sac@pureinsurance.com.
While twisted piles of debris and collapsed structures often make the front pages following a catastrophic storm, equally devastating, yet far less obvious, is the damage caused by water intrusion. Such was the case for PURE members Graham and Carolyn Dillaway.

The Dillaways’ Georgia Plantation-style home on Hilton Head Island, South Carolina, was filled with period-perfect custom work, from detailed moldings and cabinetry to twenty extraordinary antique chandeliers. Less than three years after they purchased the home—to which they planned to relocate once their youngest daughter left for college—it stood directly in the path of Hurricane Matthew, a devastating storm that made landfall in South Carolina on October 8, 2016.

Once the storm passed, their local caretaker checked the home and believed it was intact, despite a small amount of water that had entered. The Dillaways called PURE in anticipation of a minor claim.

PURE Claims Adjuster Ryan Begley had been on the island for several days when he received their call. Expecting resources would be in high demand in areas affected by Hurricane Matthew, PURE’s Catastrophe Response Team brought in dedicated

"When we saw the water damage in our house was far more extensive than we thought, we called PURE and the next thing we knew, our Claims Adjuster Ryan was at our front door with a clean-up crew. They just hit the ground running."

— GRAHAM AND CAROLYN DILLAWAY

PURE members since 2013

Helping members when a catastrophe strikes.

PURE’s Catastrophe Response Team is ready to assist in the event of a catastrophe. Whether it’s a forecasted storm that proceeds with relative predictability or one that follows a less certain path, our team can quickly mobilize crews, supplies and resources to help make members safer and more comfortable during the event, and to more quickly begin repairs after the threat has passed.
mitigation and emergency service crews and supplies well before the storm hit. While the storm’s forecast changed course every few hours, PURE’s crews, who were stationed in Atlanta and Tampa, adapted quickly. They were able to shift to heavily affected areas to assist members impacted by the storm.

“Frankly, we were the envy of all of our neighbors. The island was hit so hard and everyone had some type of damage, yet we were one of the firsts to have our insurance company at our house. Not only did PURE respond quickly, but they arrived with a clean-up crew. It was phenomenal,” said Carolyn.

Unfortunately, the damage was far more extensive than the Dillaways had expected. The storm’s 110+ mph winds had blown torrential rain horizontally, forcing water under the roof’s sheathing and down the walls of the home. Once the damage had been assessed, it was determined that the majority of the home had to be gutted to the studs.

“We thought our home would never be as beautiful as it once was,” said Graham. “But PURE cared as much for the architectural integrity and character of the home as we do. Their position was simple: ‘We’re going to put your house back together; it’s going to be just like it was before the storm.’”

As the restoration process began, PURE Member Advocate® Joan Smith sourced vendors to move, repair and store the Dillaways’ artwork and furnishings during construction. Understanding that it was a stressful time, Ryan and other members of the team checked in with them on a daily basis.

“One afternoon they took us for lunch,” said Carolyn, “and it was like we were dealing with a colleague. Because we own our businesses, we understand how customers should be treated, but that doesn’t always happen. In this case, it did. We really felt PURE was concerned about us and our home. I don’t think most businesses nowadays make you feel like you’re a priority to them. For us, we felt PURE cared about us, and that made all the difference in the world.”
Members value possessions differently. For some, the possessions they keep are worth so much more than dollars and cents. For others, that may not be so.

Because Beth Zuckerman’s parents earned their livelihood in the high-end jewelry industry, she had a very large and carefully curated collection. It was filled with irreplaceable heirlooms and high-value pieces that had been gifted to her by her late mother and father. “Every piece in my collection was a memory that held a special place in my heart,” said Beth. “Earrings my father gave my mother for their 25th wedding anniversary, the one-of-a-kind antique cameo ring that my father wore every day, my own wedding band. If it didn’t have meaning, I didn’t keep it.”

She and her husband, Larry, are diligent in activating their security system and have always kept their valuables in a safe. One day, however, Beth pulled into her driveway and noticed a jar of loose change sitting on the pavement—a jar that had been on Larry’s dresser earlier that morning.

“I knew in that moment that I had been robbed,” Beth said.
In the short time between her housekeeper’s departure and Beth’s return, burglars had broken in and ransacked several rooms. They eventually located the family’s safe—stopping only to grab the jar on Larry’s dresser—and threw it down the main staircase, causing significant damage to the hardwood floors. The burglars then loaded the safe into their vehicle and fled.

The burglary was reported to PURE, and within 24 hours of the incident, PURE Claims Adjuster Paula Smith called the Zuckermans to gauge their emotional state and explain the next steps. “Every member’s needs are unique, especially after a traumatic experience,” Paula said. “In a separate claim I had previously handled, burglars had entered and exited through a second-floor window, throwing the members’ safe onto the yard below. They were never caught, and the members were eager to put the experience behind them as quickly as possible. When I first spoke with Beth, however, it was clear that her feelings were completely different.”

“I didn’t care who did it,” Beth said, “and I didn’t want money. I just wanted all my things back. PURE offered to pay my claim right away, but to me, accepting the insurance settlement felt like giving up hope that my jewelry would be found. Paula was soothing and patient. She never made me feel rushed, and she was there every step of the way.”

Paula and Beth spoke several times a week as the police investigation began, not only to exchange information, but also so that Beth could talk through her devastation. Over the next three months, the pace of the investigation and the frequency of her conversations with the Zuckermans slowed, but Paula kept the claim open in order to move at a speed that was comfortable for them.

The confession of the jewelry dealer who had purchased the stolen pieces, combined with content on the thieves’ social media accounts, led to the eventual arrest of all parties involved. However, Beth estimates that she only recovered about 10% of her pieces, and the others have likely been melted down or sold. But she hasn’t given up hope, and she keeps an eye out for her pieces whenever she visits shops or auctions.

“Paula did everything she could to make sure the experience wasn’t any more traumatic for me. She gave me a sense of security and showed that PURE cared. Although I was—and still am—heartbroken, Paula made my experience with insurance a purely positive one,” said Beth. “She was such a blessing to me.”

Advice to reduce the risk of a collections loss.

“Because we had recently had our collection reappraised, I had photos of every single piece,” said Beth. “Those photos are invaluable to me for several reasons: because they helped police recover some of my pieces, because I now have something by which I can remember those that are lost and because I can have missing or damaged pieces remade or repaired.”

For all of these reasons, we recommend that you maintain a photo inventory of all your collected items. The additional precautions below can further help you protect your collection.

**Invest in a sturdy, secure safe.** Safes in the basement or upper floors of your home should weigh at least 750 lbs., and safes located on the first floor should weigh at least 1,000 lbs. Your safe should have steel walls that are ¼-inch thick, a steel door that is ½-inch thick and a security rating of at least TL-15 or comparable.

**Install your safe securely and ensure that it is alarmed.** Be sure your safe is bolted into the structural elements of your home. Designate your safe as a separate zone in your alarm system and ensure that it is connected to the central station.

**Install your safe in a place that makes it easy to use.** Certain locations in your home may seem more secure, but it’s best to install your safe in a convenient location so that it is not more tempting to drop your valuables on your bedside table instead.

**Have your jewelry reappraised regularly and often.** Have your pieces reappraised every three to five years so that the fluctuation of gold prices and other market forces that impact the value of your jewelry won’t leave you underinsured.

**Ensure that you have sufficient insurance limits and the proper type of coverage for each item.** There are two types of insurance coverage for jewelry and other collected items: itemized (scheduled) coverage for higher-value items and blanket coverage for a collection of a few lower-value items. Discuss your specific needs with your broker to ensure that you have the appropriate type of coverage for each of your pieces.
The Damaging Effects of Hail

Large hailstones have the ability to penetrate a roof, leading to costly water damage throughout the interior of a home. Smaller hailstones can be just as damaging. In fact, hail the size of a quarter can shatter windows, leave pockmarks in siding and damage roof coverings to the degree that they need to be replaced.

Carmen and Mark Masuelli were overjoyed when the offer they had submitted on their dream home was accepted. That’s when hailstones the size of golf balls started falling over their current home. The damage done was largely confined to the roof. It did not appear to be too extensive at first, but they were encouraged to have a professional roof inspection to be sure.

Mark filed a claim with PURE and quickly received a call from PURE Claims Adjuster Kevin McFarlin. “It was a Saturday morning. I called and left a message and wasn’t expecting to hear back until Monday,” said Mark. “I got a call within the hour. Kevin was right on top of it.”

As it turned out, like for many of his neighbors, the damage was irreparable and the roof needed to be replaced.

With a busy travel schedule, the demands of preparing his home and family for a move, and the added stress of home repairs, Mark was juggling a lot of details. “There were a lot of moving pieces, but PURE did a super job of being proactive, and that’s exactly what I needed,” said Mark. “We felt we had someone watching out for us.”

PURE Member Advocate® Miguel Sanchez also stepped in to connect them with a reputable roofer and help schedule all of the appointments.

Later in the year, the Masuellis returned to their old neighborhood for a holiday party. “Everyone was talking about the hassles and headaches caused by the roofing company many had used,” said Mark, “but PURE helped us hire a better roofing company and stuck with us every step of the way.”

“They stuck with us from the moment we called.”

—CARMEN AND MARK MASUELLI
PURE members since 2015
Hail consistently ranks among the top ten costliest causes of loss for PURE members, with nearly $42,000,000 in damages caused by hail events in 2016.

### Five factors that make hail claims complex.

A very intense, concentrated hail event can cause a massive amount of insurance claims. Reinsurer Gen Re reported that a single hail event several years ago caused their clients over $1 billion of insured losses in less than 15 minutes.\(^1\) This extreme example helps to illustrate how damaging the peril can be—and claims costs from hail are on the rise across the industry.

In addition to the large price tag, hail creates significant challenges for insurers. Here are some of the ways that hailstorm claims are more complicated than our average claim.

**Late Discovery.** Because they may not be easily observed, it could be months or years before signs of hail damage to a roof are discovered. Considering all loss types, 65% of PURE’s eventual claims are reported within seven days of a loss; for hail, 65% of claims are not reported until 100 days have passed. Considering how many new members we have, this lag can make it difficult to ascertain whether damage occurred during a member’s tenure with PURE. What’s more, unrepaired damage reduces a roof’s ability to protect a home in the future. We are using more sophisticated weather data and aerial imaging in order to respond immediately to claims—even those that are not reported right away.

**Cosmetic Damage.** When hail impairs a roof’s surface, there is no question that it must be repaired or replaced as soon as possible. The situation is not as straightforward when the damage is strictly cosmetic and does not affect the roof’s ability to protect the home. In some parts of the country, it is unsustainable to insure metal roofing components against cosmetic damage at a reasonable price. It is also challenging to repair only parts of a wood shake roof, because newer shingles will not match older shingles until they have weathered. We are exploring better ways to articulate our intent with respect to cosmetic damage to metal roof surfaces, and we intentionally limit the number of wood shake roofs we insure in hail-prone states.

**Fraud.** Stories of roofing scams are plentiful in our industry, especially after severe hail events. Within the roofing community, some say there are “more sharks than lifeguards.” They show up at homes after a storm has passed, with a hammer and ladder, offering to assess for damage. We are confident that our analytics will help us respond immediately to genuine claims, and your PURE Member Advocate\(^6\) can connect you with trusted, pre-vetted roofing vendors in your area.

**New-for-Old Coverage.** Our policies typically replace damaged property with a new version of the item meeting the same quality standards. Sometimes, however, it’s impossible to make a promise to replace new for old. When your old clothes are used as paint rags or for kids’ dress up, for example, we apply an “actual cash value” settlement that reflects the depreciation for items that are obsolete or not being used for their original purpose. We face a similar challenge when a roof has far exceeded its useful life. In this case, the home becomes more vulnerable to damage, and delaying a roof replacement can turn an insurance policy intended to cover accidental damage into a maintenance policy. For now, in a few hail-prone states, we have started to implement changes, including higher deductibles for roofs that are clearly past the reasonable time for a replacement.

**Repairing Versus Replacing.** During a claim, we determine whether a roof can be repaired or warrants replacing. However, over the past two years, we have found that as many as one-third of the payments we made for roofs to be fully replaced were instead used for smaller, partial repairs. We need to work harder to help our members get the proper work done at the right time. We need to help our members properly protect their home from further damage. And we need to be fair to the entire membership to keep insurance costs as reasonable as possible.

Our promise can be summarized by our commitment to “pay what we owe when we owe it.” This can be a complex business. At PURE, finding ways to improve and to solve complex challenges is part of why we enjoy our jobs so much.

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PURE Member Advocates®

Our purpose goes beyond replacing belongings. It is one of supporting families, lifting spirits, restoring security and making life easier. It’s why we have Member Advocates who are there for you throughout your membership, who have the autonomy to go above and beyond for you or to simply lend a compassionate ear.

KAROL SWEITZER GILL & GARY GILL, PURE MEMBERS SINCE 2014

Karol Sweitzer Gill and her husband Gary suffered from not one but two hail claims in 2016—one in which the couple’s two cars were dented and sustained broken windshields and mirrors, and another in which their roof was so badly damaged by a storm that it needed to be replaced.

In both claims, the couple was assigned a PURE Member Advocate® to help them through the repairs and to take on the administrative burdens of the claims.

Karol was first assisted by Member Advocate Alina Penny, who coordinated the repairs of her vehicles.

Despite delays at the body shop due to the high frequency of hail damage to vehicles in the area, Alina committed to resolving the repairs as quickly as possible. She provided continuous follow-up to keep Karol apprised of the latest developments, and during this time, the two had the opportunity to get to know one another. “Not only was she extremely competent, but she is truly one of the kindest young women I have ever encountered,” said Karol.

Several months later, with her Auto claim now resolved, Karol received a call from the Member Advocate assigned to her...
Homeowners claim. It was Amber Penny—Alina’s twin sister. Recognizing the name and a familiarity in the voice, Karol questioned the connection and was pleasantly surprised to learn Amber’s identity. Karol would also soon come to learn that the she would receive the same high level of service from Amber. “Just like Alina, if Amber said she was going to do something, she did it. I found their extreme level of commitment and reliability highly unusual.”

In fact, she was so pleased with their service—and the conversations they shared as they got to know each other—that she gifted them a cookbook to thank them for all they had done for her and her husband.

“What a blessing I have received in meeting Alina and Amber,” said Karol. “Since the repairs, we’ve maintained contact, and they have become very dear to me and my family. I have not often encountered such competence and goodness. They are treasures in this unique insurance company. They are treasures to me.”

GEORGENE BRAZER, PURE MEMBER SINCE 2013

After settling into her new home, Georgene Brazer was heartbroken to find that a number of her cherished and irreplaceable antiques had been significantly damaged during her recent move. A late 18th-century Wedgwood bowl, complemented by a handwritten letter to its original owner, was cracked beyond repair. An early 19th-century French silk needlework panel, originally purchased by her late mother, was torn. She was most devastated to find that a set of bone china dishes passed down to her by her grandmother was shattered.

When PURE Member Advocate Lizzy Rechter learned about Georgene’s broken dishes, she sought out to find a set to replace them.

“The plates were family heirlooms; they had special meaning to me,” said Georgene. “Lizzy located two identical plates and had them sent to me. Tell me where you find service like that?”

MARK AND LISA MILLER, PURE MEMBERS SINCE 2014

After returning home to Georgia from a summer internship in California, the Millers’ daughter Madison learned that the tractor trailer transporting her car had been in a serious accident. Her car, including all of her personal belongings packed inside, had been taken to a tow yard in Shreveport, Louisiana—nearly 700 miles away from home. When the family was notified of the incident, they called PURE and were connected to PURE Member Advocate Abigail Tesoriero.

“She was with us from that moment on; we were never transferred to anyone else,” said Lisa. Despite many complications, Abbie worked tirelessly alongside the Millers. “When the tow yard finally said we could pick up the car, we thought we might have to drive to get it, but thanks to Abbie, PURE sent a tow truck out there the next morning.”

“Without Abbie, I don’t think we ever would have gotten that car back. It was such an unusual situation, but she was our safe haven in the storm.”

Member Advocates are there for you throughout your membership.

They are the cornerstone of our exceptional claims experience, providing support before, during and after a claim. We fill this important role with smart, curious and emotionally intelligent young professionals, many of whom graduated from top-tier universities. During their training, all Member Advocates study for and pass their Licensing Adjuster Exam, which gives them the ability to receive and handle reported claims directly. Many of our Member Advocates leverage their training and experience working with members to eventually move into more senior roles, such as General Adjuster.
Responding with Empathy and Urgency

PURE has adjusted nearly 60,000 claims since we began—claims of all sizes, from a home demolished by a fire to a missing stone in a ring. No matter the situation, we do our best to approach every claim with great care and empathy.

Automobile accidents are often traumatic for those involved, regardless of whether there are injuries. We understand that while the claim may be small in comparison to others we’ve seen, it is likely the largest and most important concern for that member at that point in time. Every member and every claim therefore deserve the greatest amount of attention our team can provide.

SCOTT ALLSHOUSE, PURE MEMBER SINCE 2014

When Scott Allshouse’s car struck an object one rainy night, the damage wasn’t immediately apparent, but it soon caused his radiator to stop working. PURE Member Advocate® Kiera Russell reached out the next day.

“Kiera called me from home. Her office was closed; they had been evacuated because of Hurricane Matthew, but she said that it wasn’t going to interrupt my claim. She still made me feel like I was the most important thing in her day. Later, I visited PURE’s website and found the PURE Principles you ask your team to uphold; Kiera checked every box with her follow-through, care and empathy. I had an accident, but you guys put me back together again.”
Curtis and Melissa Schlott were driving home with their two young daughters and enough vacation gear to fill their SUV. Three hours from home, a tractor trailer pushed their vehicle onto the highway median. No one was hurt, but the vehicle was totaled and the family—especially the children—were shaken.

PURE Claims Adjuster April Esterhuizen immediately began searching for a rental vehicle, but because it was a holiday, all rental companies in the area were closed, and driver services were fully booked. Eventually she had success, and the first responders on the scene graciously drove the family, along with all of their belongings, the 40 minutes to their rental vehicle.

“Above all, we just wanted to get home,” said Curtis. “I don’t know how April did it, but she found us a car. And then, to top it all off, a package arrived the next morning—on a Sunday. It was two stuffed animals for my girls from April. They probably didn’t cost much, but to me they were priceless. April made us feel like more than a number; she made us feel like a family. She took care of us, from beginning to end.”
Kevin and Virginia Jornlin’s son was involved in a four-car accident while he was away at college. No one was hurt, but the Jornlins were concerned over the potential for a lengthy confrontation with the other drivers, as well as the complications that would be added given their son’s distance. PURE Claims Adjuster Tracy Vidaurre wanted repair logistics and multi-driver liability disputes to be the last things on their minds. She worked directly with their auto body shop throughout the repair process as well as with the other drivers’ insurers.

“The situation’s complexity could have created a nightmare for us, but PURE made it easy,” said Kevin. “Tracy communicated clearly and helped us understand what was to come. I trusted her to help us and my son. It’s obvious from the top down that there’s a member-focused culture at PURE.”
Helping you stay safe on the road.

To help us deliver on our commitment to make you smarter, safer and more resilient, we partner with industry experts in search of new and better ways to help you prevent losses.

PURE is a proud member of the Insurance Institute for Highway Safety (IIHS), the leading auto safety research institution. Backed by companies across the auto insurance industry, IIHS’s crash-test findings have a direct influence on U.S. safety regulations. Steve Oakley, SVP and Chief Actuarial Officer for Product at PURE, serves on the IIHS Board of Directors as PURE’s official representative. His involvement and PURE’s membership with IIHS help us keep our members up to date regarding the latest safety techniques. For example, IIHS has researched the effectiveness of many new accident-prevention technologies common in newer vehicles, like lane departure alarms and movable headlights.

We also alert you when a vehicle you own may be recalled due to safety concerns. Often, affected members report that they received word of a recall from us before their dealer or vehicle manufacturer even contacted them. We sent alerts to over 3,500 individual PURE members regarding nine different recalls in 2016, and so far in 2017, we’ve already alerted over 6,700 members to 16 different recalls.

MARK & JOANNE WRIGHT, PURE MEMBERS SINCE 2013

Mark Wright’s Porsche was significantly damaged when he was rear-ended at a traffic light. To make matters worse, his longstanding back injury was exacerbated and required six months of treatment. PURE Claims Adjuster Kristine Pierson made sure he had all the tools and resources he needed to negotiate with the at-fault driver’s insurer and receive ample compensation for his damages and injuries.

“Kristine was right there with me the whole time,” Mark said. “She ensured my vehicle was evaluated thoroughly, and she connected me with a specialist in luxury vehicle resale to document my car’s depleted value. She got all of my medical records for me and made sure I was quickly reimbursed for those expenses. I don’t believe all insurance companies are the same, and I don’t believe everyone in customer service is the same, but I got the best of both worlds in PURE and in Kristine.”
Membercentricity in Action

At PURE, we come to work every day ready to make a difference in the lives of our members and to continually improve. That means finding new ways to exceed your expectation of what it means to be a PURE member and the coverage, service and experience that come along with it.

**MEMBERSHIP MEANS MORE THAN JUST INSURANCE**

You are more than a policy to us—you are a person. That means your membership is more than a transaction; it's a relationship to which we are deeply committed. As such, we make it a priority to engage with as many members as we can, to understand what's important to you and to learn how we can be a better party in that relationship. In 2016, our team spent time with over 1,800 individual members—whether through an event we held, one we co-hosted or simply over a cup of coffee.

**IMPROVING THE WAY YOU MANAGE YOUR ACCOUNT**

We are continually working to refine and improve the service experience so you can spend less time managing your insurance and more time focusing on what really matters. Several recently introduced examples include:

**Payment Portal.** Our new online Payment Portal features a number of enhancements designed to make it easier for you to pay your bill and manage your account right from the PURE Member Portal. This means you can easily access billing, coverage and claims information, all from the same secure site. It offers:

- More Autopay options that give you the flexibility to pay your minimum amount due or your total balance using a variety of payment methods.
- A more intuitive, user-friendly experience that works on your desktop or mobile device.

**E-Signature.** You can now sign your insurance documents electronically, on any device and from wherever you are. Once you sign, electronic copies are automatically sent to you, your broker and PURE.

**Live Chat.** Live online chat is now available; from within the Member Portal, you can chat directly with a Member Services representative about your bills, policies or other account-related matters.

**PIONEERING INNOVATIVE COVERAGE SOLUTIONS**

To keep pace with the diverse, complex and fluid needs of the PURE membership, we commit ourselves to the continual innovation of the coverages we offer. The late 2016 launch of PURE Programs exemplifies this initiative.

PURE Programs is an Excess & Surplus (E&S) lines solution specifically designed for high net worth individuals and families who are unable to place a home (or homes) within the admitted insurance market due to increased risk factors, such as coastal exposures and short-term rentals. The service experience delivered through this solution matches the experience PURE members enjoy.
PROTECTING WHAT MATTERS MOST

To us, risk management isn’t just something we talk about; it’s something we do.

Our Risk Managers Have a Deep Expertise in Fine and Unique Homes. These professionals travel the country conducting PURE360™ Risk Management Consultations, walking through our members’ homes to ensure valuations are accurate so that homes are insured for their full replacement value. They also look to identify points of vulnerability that could result in claims and recommend ways to help remedy them. They’ll even identify policy credits for which you may be eligible that will help to reduce the cost of your insurance.

PURE Member Advocates® are Your Personal Concierges in the Risk Management Process—and Beyond. These smart, dedicated professionals are ready to serve our members, whether it’s to help implement the advice provided by a Risk Manager during the PURE360™ or to connect you with services or technology that can make you, your family and your belongings safer, like background checks, safes, security systems, lightning suppression systems and jewelry appraisals, to name a few. And in the event of a claim, they will take on the administrative burdens that arise, like locating rental cars, arranging temporary living accommodations, finding and scheduling contractors—and much more.

REIMAGINING THE CLAIM EXPERIENCE

The best claim experience is one that never happens in the first place, but if you do have a loss, we want to make the experience less taxing. With PURE, you only have to tell your story once, so the settlement process can begin immediately, and we select and train our employees based on empathy and emotional intelligence. You can also view real-time updates in our Claims Tracker located within the Member Portal.

Our Member Advocates will handle the administrative burdens so you can get back to your life as quickly as possible, and they’ll help you take advantage of our Loss Prevention Benefit: up to $2,500 to help you install risk-prevention technology to keep a loss from recurring.

Auto Claims Made Easier with PURE Express. Our mobile app allows you to submit pictures of auto damage and receive repair estimates in as little as a few hours.

Download PURE Express in the Apple App Store or Google Play Store.

PURE Express was used by more than 1,200 members with Automobile claims in 2016.
The Value of Independent Brokers

PURE is proud to partner with the finest independent brokers who work to serve your interests with deep expertise. We are highly selective, looking for those who display a strong understanding of the personal insurance needs of high net worth families, who have reputations for excellence within the communities they serve and who are dedicated professionals acting as trusted advisors for their clients.

Broker Spotlight: Korotkin Insurance Group

Korotkin Insurance Group (KIG), located just outside of Detroit, Michigan, fits the definition of “partner” perfectly.

KIG was founded in 1913 by William Korotkin. More than 100 years and three generations later, the agency is still owned by the Korotkin family. William’s grandson, Ken Korotkin, serves as President, and he will pass the legacy to his children as well. With its long history, KIG is deep-rooted in the Detroit community. The agency, along with many of its employees, passionately supports local causes, including the Jewish Association for Residential Care, which provides aid for people with disabilities, and the Fridson Family Fund for Leukemia and Lymphoma Research. Today, KIG is licensed in 45 states and serves over 10,000 clients.

“PURE built the better mousetrap, and they’re unique in the insurance industry,” said J.J. Reifler, Vice President at KIG. “We joined PURE’s network late in 2014 when much of the high net worth insurance industry was consolidating. That timing, combined with the natural synergies between our organizations, has led to more explosive growth than KIG has experienced with any other personal lines carrier in our history. PURE loves us, and we love PURE.” We couldn’t agree more.
PURE’s Broker Partners at a Glance

By many estimates, there are more than 30,000 independent insurance agencies throughout the U.S. Though many thousands have applied for appointment with PURE, our careful selection process has resulted in only a small fraction of those being appointed. This selectivity allows us to develop deep broker partnerships, through which we can serve our members better; this is reflected in strong year-over-year member renewals and a world-class NPS® that continues to increase.

We have partnerships with independent brokers throughout the U.S. They range from very large firms with multiple offices across the country to very small, family-owned single-office operations. This gives members the flexibility to work with the broker that best suits their needs.

<table>
<thead>
<tr>
<th>Agency Size</th>
<th>Number of Companies</th>
<th>Number of Office Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>NATIONAL</td>
<td>17</td>
<td>424</td>
</tr>
<tr>
<td>REGIONAL/MULTI-OFFICE</td>
<td>80</td>
<td>241</td>
</tr>
<tr>
<td>SINGLE LOCATION</td>
<td>651</td>
<td>651</td>
</tr>
</tbody>
</table>

Office Locations Per State

Brokers By Year

In 2016, PURE grew its network by 86 new broker relationships while still remaining highly selective.

The Value of Independent Brokers
Community Initiatives

Like so many of our members, PURE is passionately involved in improving our communities. We seek opportunities to align with philanthropic organizations who share our and our members’ values and who truly make a difference in the lives of those they serve. In 2016, PURE employees participated in over 15 charitable events, ranging from volunteering at the local food depository in Chicago to mentoring youth of low-income families on how to write a powerful resume that will better position them for employment. Here is a closer look at some of the exciting partnerships we furthered and organizations we supported in 2016.

THE PURE INSURANCE CHAMPIONSHIP IMPACTING THE FIRST TEE

PURE is now the title sponsor for the longstanding PGA TOUR Champions event held annually at the famed Pebble Beach Golf Links. The PURE Insurance Championship is the only event of its kind, bringing together golf legends to play alongside amateurs and juniors.

The juniors are selected from The First Tee, whose mission is to impact the lives of young people through educational programs that build character, instill life-enhancing values and promote healthy choices through the game of golf and Nine Core Values™. We’re hoping that the small part we play will help to advance the next generation of leaders.

The event will be held September 19–24, 2017. For more information about this sponsorship or the event, visit pureinsurancechampionship.com and follow @PUREFirstTee on Twitter, Instagram and Facebook.

The First Tee’s Nine Core Values™

Honesty | Integrity | Sportsmanship | Respect | Confidence | Responsibility | Perseverance | Courtesy | Judgment

CHARLESTON’S EASTSIDE NEIGHBORHOOD

In September, PURE members and friends gathered at our Charleston office, located in the historic Cigar Factory, to celebrate the revival of this special building and its surrounding Eastside community. The event honored the area’s rich history and provided an opportunity to emphasize our commitment to its revitalization. Local artists presented and discussed their works, and funds raised were used to endow a scholarship for the neighboring Trident Technical College. This scholarship, which is designed to be given annually, covers the full cost of tuition for one area youth.
5 Arts Circle supports the performing and visual arts community in and around Phoenix, AZ. Our broker partners at Brown & Brown’s Phoenix office, who have long supported this great organization, brought a sponsorship opportunity to our attention. Since becoming a corporate sponsor in early 2016, we’ve connected and deepened relationships with a number of Phoenix metro area PURE members who are, themselves, sponsors. One of those members, Randy Schilling, was honored by the organization in 2016 for his contributions.

We continue to support the St. Baldrick’s Foundation, and we’re proud that our involvement with the organization continues to grow. As the second-largest contributor of funds to fight childhood cancer—behind the U.S. government—St. Baldrick’s has raised more than $200,000,000 primarily through head-shaving events. This past March, five PURE employees volunteered to have their heads shaved in support of St. Baldrick’s and raised nearly $52,000. This brings PURE’s total to 18 shaved heads and over $117,000 raised since 2015 when we began holding fundraising events in support of this incredible organization.

Our corporate headquarters in White Plains, NY is highly involved with The United Way of Westchester and Putnam County. We were proud to recently receive its Spirit of Westchester and Putnam Corporate Engagement Award for social responsibility through leadership and involvement.

AWARDS

Over the past year, PURE and a number of our employees received recognition in a wide variety of categories, from explosive growth and product innovation to company culture and our member experience.
Gross Written Premiums

PURE continues to experience steady organic growth both in gross written premiums and in the size of our membership.

Dollars in millions.

<table>
<thead>
<tr>
<th>Year</th>
<th>Premiums (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$174.2</td>
</tr>
<tr>
<td>2013</td>
<td>$251.3</td>
</tr>
<tr>
<td>2014</td>
<td>$351.4</td>
</tr>
<tr>
<td>2015</td>
<td>$490.5</td>
</tr>
<tr>
<td>2016</td>
<td>$640.4</td>
</tr>
</tbody>
</table>

Membership Retention

We are proud to have a highly engaged and satisfied membership, resulting in a very strong member retention rate.

95.3%

Product Suite

PURE offers comprehensive, customizable insurance products tailored to meet the needs of high net worth individuals. Members who bundle their policies have fewer coverage gaps and benefit from generous discounts and the ease and convenience of a single billing statement.*

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Percent of Members Who Purchase Coverage from PURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>HOMEOWNERS</td>
<td>97.9%</td>
</tr>
<tr>
<td>EXCESS LIABILITY</td>
<td>84.8%</td>
</tr>
<tr>
<td>COLLECTIONS</td>
<td>77.0%</td>
</tr>
<tr>
<td>AUTO</td>
<td>66.0%</td>
</tr>
<tr>
<td>FLOOD</td>
<td>13.5%</td>
</tr>
<tr>
<td>WATERCRAFT</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

*Not currently available for primary flood.
Membership Diversification

PURE’s book of business continues to diversify year after year. Diversified growth enables PURE to improve efficiency and reduce the severity of any one catastrophic event.

In 2016, we maintained strong growth across all eight regions, with California and the Western States growing at the fastest pace.

Subscriber Savings Accounts

$25M allocation to Subscriber Savings Accounts

As a result of our very strong operating performance in 2016, we will make an allocation of $25,000,000 into Subscriber Savings Accounts (SSAs). This marks the fifth consecutive year in which we’ve made an allocation as well as our largest ever. To date, nearly $45,000,000 has been allocated back to the membership through SSAs. For more information about SSAs and the unique value they provide, visit pureinsurance.com/ssa.

Fifth Renewal Benefit

NEARLY $10M in additional savings for members who no longer pay surplus contributions

Upon reaching their fifth renewal, members are no longer required to pay surplus contributions. By the end of 2016, nearly 10,000 members had reached this milestone and realized a combined savings of nearly $10,000,000 in 2016 alone on top of our already competitive costs.

Percent of Members

<table>
<thead>
<tr>
<th>Regions</th>
<th>Gross Written Premium Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlantic</td>
<td>21% 29%</td>
</tr>
<tr>
<td>Texas and the Gulf</td>
<td>17% 29%</td>
</tr>
<tr>
<td>New York Metro</td>
<td>17% 21%</td>
</tr>
<tr>
<td>New England</td>
<td>13% 33%</td>
</tr>
<tr>
<td>Florida</td>
<td>12% 19%</td>
</tr>
<tr>
<td>Midwest</td>
<td>10% 29%</td>
</tr>
<tr>
<td>Western States</td>
<td>6% 63%</td>
</tr>
<tr>
<td>California</td>
<td>4% 120%</td>
</tr>
</tbody>
</table>
The 2016 Report to Members

Claims & Expenses

PURE’s Combined Ratios

An insurer’s combined ratio measures losses and expenses against premium to help evaluate underwriting results. A combined ratio below 100% typically indicates profitability. However, a growing insurance company may show statutory underwriting losses even with a combined ratio under 100%. Management monitors three combined ratios to evaluate operating performance.

Gross Combined Ratio

\[
\frac{\text{Total Claim Costs}}{\text{Total Premium Earned}} + \frac{\text{Total Operating Expenses}}{\text{Total Premium Written}} = 99.4\% \quad \text{GROSS COMBINED RATIO}
\]

This measure indicates whether or not an insurer is collecting enough premium to cover its claims obligations and operating expenses prior to the cost/benefit of reinsurance.

Net Combined Ratio

\[
\frac{\text{Net Claim Costs}}{\text{Net Premium Earned}} + \frac{\text{Net Operating Expenses}}{\text{Net Premium Written}} = 100.0\% \quad \text{NET COMBINED RATIO}
\]

This measure indicates profitability net of the cost/benefit of reinsurance. It reflects items included in the statutory P&L.

Adjusted Combined Ratio

\[
\frac{\text{Net Claim Costs}}{(\text{Net Premium Earned} + \text{Member Surplus Contributions})} + \frac{\text{Net Operating Expenses}}{(\text{Net Premium Written} + \text{Member Surplus Contributions})} = 80.1\% \quad \text{ADJUSTED COMBINED RATIO}
\]

This measure adjusts the Net Combined Ratio to reflect the benefit of member Surplus Contributions, which go directly to PURE’s balance sheet. We believe that this measure provides the most accurate picture of PURE’s claims-paying ability and overall economic performance in any given year.

Subrogation

Third parties are often responsible for damages in a claim; an automobile accident caused by another motorist or water damage caused by an improperly installed water line are some common examples. In these situations, we use the legal process of subrogation to attempt to recover the money we paid out. This ensures that the at-fault party, rather than PURE, bears the financial responsibility for that claim.

Successful subrogation is good for all of us: it helps to improve overall operating results, reduces the cost of insurance premiums and allows us to reimburse some or all of a member’s deductible. If you experience a claim at the fault of another party, there are several things you can do to help in these efforts. For example:

- **If your home or property is damaged as the result of a faulty or broken part,** do not throw away the damaged parts. We will study them in order to aid in our cause-of-loss investigation. Also, retain any contracts for work performed and receipts for replacement products.

- **If you are involved in an automobile accident,** take photos of the scene as well as all other vehicles involved, regardless of whether there is damage. (See page 23 to learn how our mobile app, PURE Express, can help with this.) The stress of the situation can make remembering details difficult, so write down your observations and encourage others at the scene to do so as well.

In 2016, PURE earned more than $15,000,000 from our subrogation efforts.

At least one quick-thinking member can attest to the power of photos. Following a seemingly minor auto accident, our member snapped a photo of the undamaged back bumper of the other vehicle. This came in handy days later when the other driver claimed that the serious—and clearly visible—damage done to her vehicle, which included dents and scratches to the bumper, was the result of the incident with our member. The photo helped to avoid a long and expensive investigation and provided us with enough evidence to turn the case over to the state’s division of insurance fraud.
Costliest Causes of Loss

The table below shows the five costliest causes of loss to the membership across the lines of business in 2016. The percent of cost reflects what PURE has paid or expects to pay on claims reported in 2016.

<table>
<thead>
<tr>
<th>Cause</th>
<th>Percent of Total Cost</th>
<th>Percent of Total Claims</th>
<th>Average Cost Per Claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>WATER DAMAGE</td>
<td>30.9%</td>
<td>12.2%</td>
<td>$43,000</td>
</tr>
<tr>
<td>AUTO COLLISION</td>
<td>20.0%</td>
<td>37.9%</td>
<td>$9,000</td>
</tr>
<tr>
<td>HAIL*</td>
<td>12.3%</td>
<td>5.2%</td>
<td>$40,000</td>
</tr>
<tr>
<td>FIRE</td>
<td>11.3%</td>
<td>0.5%</td>
<td>$394,000</td>
</tr>
<tr>
<td>WIND</td>
<td>6.9%</td>
<td>3.6%</td>
<td>$33,000</td>
</tr>
<tr>
<td><strong>TOP FIVE LOSS CAUSES</strong></td>
<td><strong>81.4%</strong></td>
<td><strong>59.4%</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Homeowners and Automobile claims combined.

Claims Count by Year

As the membership grows, we are naturally going to see an increase in the number of claims. To date, PURE has handled nearly 60,000 claims.

<table>
<thead>
<tr>
<th>Year</th>
<th>Claims Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>18,529</td>
</tr>
<tr>
<td>2015</td>
<td>14,477</td>
</tr>
<tr>
<td>2014</td>
<td>9,178</td>
</tr>
<tr>
<td>2013</td>
<td>5,954</td>
</tr>
<tr>
<td>2012</td>
<td>5,179</td>
</tr>
</tbody>
</table>
2016 Claims in Review

We work hard to help you become smarter and safer, but claims do happen. We are an insurance company, and helping our members through claims is why we are in business. Here are some of the ways we helped make our members more resilient in 2016.

**Burst Pipes**
We helped members clean up from and restore the damage caused by burst pipes at a cost of more than $38,000,000.

**Hurricane Matthew**
We helped 520 members recover from more than $15,000,000 in damages.

**Hail**
We repaired or replaced nearly 800 roofs damaged by hail. Hailstorm events caused nearly $42,000,000 in damage for PURE members.

**Automobile**
We responded to 12,515 auto claims ranging from thefts to fender benders to severe collisions.

**Jewelry**
Because of the $50,000 sublimit on our Homeowners policy for lost, misplaced or stolen jewelry, members who otherwise would not have had coverage were reimbursed nearly $900,000.

**Collections**
We helped members restore, recover or receive compensation for their most prized possessions at a cost of nearly $18,000,000.

**Liability**
We helped 3,439 members defend against liability claims with total payments (or expected payments) exceeding $33,000,000.

**Home Fires**
We helped 33 members recover from large fire losses, totaling more than $36,000,000 in claim costs.
PURE’s Homeowners policy includes a $2,500 Loss Prevention Benefit—money that members can use to make their homes safer or better equipped to prevent the loss from recurring. In 2016, Loss Prevention Benefits paid to members totaled nearly $1,100,000.

INVESTMENTS IN LOSS PREVENTION

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>292</td>
<td>521</td>
</tr>
</tbody>
</table>

PURE employs a team dedicated to helping members take advantage of our Loss Prevention Benefit. Our Member Advocates™ reach out to members following qualifying claims to explain the benefit and the many ways it can be used to help make their homes safer. In 2016, the most common loss prevention methods in which PURE invested included:

- Generators
- Water Shut-Off Valves
- Home Security Systems
- Hail-Resistant Roofs
- Arborist Services

Net Promoter Score

Net Promoter Score (NPS™) is a measure used to gauge customer loyalty and enthusiasm. An organization’s NPS is derived by classifying customers into three categories—Promoters, Passives and Detractors—based on their answer to one simple question: How likely are you to recommend our company to a friend or colleague? Customers respond on a 0–10 scale, where 0–6 are Detractors, 7–8 are Passives and 9–10 are Promoters.

Our annual member survey was issued in early 2017. We are delighted to share that our NPS has once again increased. Our NPS of 67 reflects a highly engaged and enthused membership, and it’s even higher among members who have experienced our claims service.
Both PURE and the PURE Group (the combined assets of PURE and PIC) have experienced a steady growth in admitted assets year-over-year.

### Assets

The Growing Impact of Surplus Contributions

Surplus contributions are included in members’ cost of insurance for the first five years of membership. These funds, which are equal to a small percentage of a member’s premiums, provide a steady flow of capital to PURE, supporting its financial strength and creating a very favorable cost of capital. This lower cost of capital contributes to PURE’s highly competitive rates. In 2016, surplus contributions reached $38,200,000.
Policyholder surplus represents the capital that allows an insurer to meet all of its obligations, beyond premiums, reserves, and reinsurance.

Statutory accounting requires an insurer to book expenses when a policy is written, but revenue is recognized pro-rata over the term of the policy. This accounting treatment effectively penalizes a growing insurance company as expenses are booked before revenue. GAAP accounting better matches revenues and expenses through the creation of a Deferred Acquisition Cost (DAC) asset.

In 2016, the PURE Group’s statutory surplus grew to $312,100,000. In addition, its GAAP DAC asset stands at nearly $65,600,000.

In 2016, the PURE Group grew surplus at a faster rate than premiums. PURE maintains a lower leverage ratio than most of the largest primarily personal lines insurers.

* Median net written premium to surplus for the top ten U.S. Homeowners and Automobile carriers, defined as carriers with at least 80% of U.S. writings in either Homeowners or Personal Automobile lines.
Reinsurance

Reinsurance plays an important role in the financial strength and claims-paying ability of the PURE Group. We enter into these reinsurance contracts (known as treaties) in order to reduce the volatility of our results and support prudent growth. They provide several types of protection, including:

**Per-Risk Pro-Rata.** Also known as “quota share,” these are treaties in which reinsurers share in the premiums and losses for each covered risk. While pro-rata treaties are often subject to loss limitations (single large risks and/or catastrophic events), they provide the most comprehensive protection of any reinsurance program and fill gaps around Excess of Loss (XOL) programs. PURE places several pro-rata treaties across its Homeowners, Personal Excess Liability, Collections and Watercraft programs.

**Per-Risk XOL.** For our largest property exposures, PURE purchases reinsurance to limit the potential impact of any one large loss. Under these treaties, reinsurers respond if there is a loss under a covered policy that is in excess of a predetermined limit typically due to large fires. PURE purchases per-risk XOL on our highest valued homes, watercraft and collections of fine art, jewelry and automobiles.

**Catastrophe XOL.** PURE purchases significant reinsurance “towers” that protect against losses to multiple risks at one time due to natural catastrophes. We spend a lot of time and analytical effort to evaluate our potential exposure to a variety of natural catastrophes across our geographic footprint. Based on that information, we purchase catastrophe reinsurance to protect the PURE Group against massive catastrophic events (including those events that have much less than a 1-in-100 year modeled probability of occurring) with appropriate “reinstatement” provisions that will provide cover even if such an unthinkable event were to happen multiple times in the same year.

The PURE Group partners with over 60 highly rated and well-respected reinsurers across all treaties. This diversification helps to mitigate any third-party credit risk and ensures the financial strength and soundness of our reinsurance program.

These companies believe in PURE and are willing to put their capital at risk to support our growth. In the spirit of alignment, we need to make sure that we deliver an appropriate profit to these important capital providers to ensure long-term support.

<table>
<thead>
<tr>
<th>REINSURANCE PARTNER</th>
<th>A.M. BEST RATING</th>
<th>HOME</th>
<th>CATASTROPHE</th>
<th>ALL OTHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Everest Reinsurance Company</td>
<td>A+</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Hannover AG</td>
<td>A+</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Lloyd’s Syndicates</td>
<td>A</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Markel Global Reinsurance</td>
<td>A</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>PartnerRe</td>
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<td>☐</td>
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<td>☐</td>
</tr>
<tr>
<td>SCOR Reinsurance</td>
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<td>☐</td>
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<td>☐</td>
</tr>
<tr>
<td>Sirius America</td>
<td>A</td>
<td>☐</td>
<td>☐</td>
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<td>SwissRe</td>
<td>A+</td>
<td>☐</td>
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<td>Tokio Millenium</td>
<td>A++</td>
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<td>☐</td>
<td>☐</td>
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<tr>
<td>XL Catlin</td>
<td>A</td>
<td>☐</td>
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</tr>
</tbody>
</table>
Balance Sheet and Investments

### Investments at a Glance

Investment returns play an important role in the economics of an insurance company, but an aggressive investment strategy can also create risk. PURE maintains a conservative investment portfolio that is comprised primarily of short-duration, high-credit-quality fixed-income holdings that performed well in 2016. As a growing company, PURE is continually adding to its investment portfolio and grew its cash and invested assets by $65,000,000 in 2016.

![Investment Mix Diagram]

**Total Cash and Invested Assets [PURE]**

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
<th>Change</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$76,6M</td>
<td>$107,7M</td>
<td>$-31M</td>
<td>-29%</td>
</tr>
<tr>
<td>$129,8M</td>
<td>$176,7M</td>
<td>$-47M</td>
<td>-27%</td>
</tr>
<tr>
<td>$241,9M</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Balance Sheet & Investments Investments at a Glance**

<table>
<thead>
<tr>
<th>Investment Mix</th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>20%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>EQUITY INDEX FUNDS</td>
<td>4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CONVERTIBLE BONDS</td>
<td>3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INVESTMENT GRADE STRUCTURED SECURITIES</td>
<td>33%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INVESTMENT GRADE CREDIT</td>
<td>26%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OTHER</td>
<td>11%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>BANK LOANS</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US GOVERNMENTS</td>
<td>2%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Investment Mix [PURE]**

- **INVESTMENT GRADE CREDIT**: 26%
- **INVESTMENT GRADE STRUCTURED SECURITIES**: 33%
- **CASH**: 20%
- **EQUITY INDEX FUNDS**: 4%
- **CONVERTIBLE BONDS**: 3%
- **BANK LOANS**: 2%
- **US GOVERNMENTS**: 2%
- **OTHER**: 11%

### Investment Mix

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2016</th>
<th>2015</th>
<th>Change</th>
<th>Variance</th>
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**Balance Sheet & Investments Investments at a Glance**

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<th>Pure 2016</th>
<th>2015</th>
<th>Change</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cash &amp; Invested Assets</td>
<td>$241,905,076</td>
<td>$176,660,903</td>
<td>$65,244,173</td>
</tr>
<tr>
<td>Net Accounts Receivable</td>
<td>167,991,999</td>
<td>147,879,549</td>
<td>20,112,390</td>
</tr>
<tr>
<td>Other Assets</td>
<td>899,662</td>
<td>507,856</td>
<td>391,796</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$410,796,667</td>
<td>$325,048,308</td>
<td>$85,748,359</td>
</tr>
</tbody>
</table>

| Unpaid Losses & LAE | $37,127,949 | $27,701,345 | $9,426,604 | 34% |
| Accounts Payable & Accrued | 35,369,640 | 28,617,144 | 6,752,496 | 24% |
| Unearned Premiums | 85,647,130 | 70,069,402 | 15,577,728 | 22% |
| Reinsurance Payable | 77,995,691 | 86,930,294 | (8,934,603) | -10% |
| Other Current Liabilities | 17,565,915 | 13,123,487 | 4,442,428 | 34% |
| Total Liabilities | $253,706,325 | $226,441,672 | $27,264,653 | 12% |

| Surplus Notes | $91,691,880 | $68,156,977 | $23,534,883 | 35% |
| Member Surplus Contributions | 131,007,300 | 95,837,459 | 35,169,841 | 37% |
| Subscriber Savings Accounts | 17,542,547 | 14,464,348 | 3,078,199 | 21% |
| Unassigned Surplus & Other | (85,151,365) | (79,852,148) | (5,299,217) | 4% |
| Surplus as Regards to Policyholders | $157,090,342 | $98,606,636 | $58,483,706 | 59% |

**Investment Mix [PURE]**

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<td></td>
<td></td>
</tr>
</tbody>
</table>
Privilege Underwriters Reciprocal Exchange

**SUBSCRIBERS’ ADVISORY COMMITTEE**
- Ross Buchmueller, President & CEO, Privilege Underwriters, Inc.
- Joey Cummings, CEO/Chief Strategic & Creative Officer, The Joey Company
- Douglas Fields (Secretary), Senior Vice President, BB&T Oswald Trippe And Co.
- Richard Jacobs, Managing Director, CGA Capital
- Jodi Lash, CEO, J. Lash & Company
- James H. McLaughlin (Chairman), CEO, James H. McLaughlin & Co., LLC
- William W. Wilson III, Executive Chairman, Queue Software

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

**ACTUARIAL SERVICES**
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**AUDITOR**
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- Ross Buchmueller, President & CEO, Privilege Underwriters, Inc.
- James Carey, Senior Principal, Stone Point Capital
- Christopher Harrington, Director, Private Equity, KKR
- Peter Mundheim, Principal, Stone Point Capital
- Tagar Olson, Head of Financial Services, KKR
- Nicolas Zerbib, Senior Principal, Stone Point Capital

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---

**Privilege Underwriters Inc.**

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- Ross Buchmueller
- James Carey
- Christopher Harrington
- Peter Mundheim
- Tagar Olson
- Nicolas Zerbib

**LEADERSHIP TEAM**
- Ross Buchmueller, President & Chief Executive Officer
- Martin Hartley, Executive Vice President, Chief Operating Officer
- Jeffrey Paraschac, Executive Vice President, Chief Financial Officer
- Gary Stephen, Executive Vice President, Claims & Risk Management
- Kevin Daley, President, Western Zone Executive
- Mark Galante, President, Northeast Zone & Strategic Alliances
- W. Keith Self, President, Southern Zone
- Robert Collins, Senior Vice President, Member Engagement
- Phil Figueredo, Senior Vice President, Controller
- Katherine Frattarola, Senior Vice President, Chief Marketing Officer
- Vivian Gee, Senior Vice President, Regional Executive—Florida
- Dennis Kirwin, Senior Vice President, Regional Executive—Atlantic
- Jason Lichtenthal, Senior Vice President, Chief Information Officer
- Natali Mohanty, Senior Vice President, Data & Analytics
- Steven Oakley, Senior Vice President, Chief Actuarial Officer
- Julie Sherlock, Senior Vice President, Field Underwriting Officer
- David Spencer, Senior Vice President, Strategic Business Development
- Scott Spencer, Senior Vice President, Risk Management
- Jennifer Spindler, Senior Vice President, Underwriting Operations
- Stuart Tainsky, Senior Vice President, Administration & Member Experience
- Michael Taylor, Senior Vice President, Deputy Chief Claims Officer
- John Willis Jr., Senior Vice President, PURE Programs
- Jesse Aedo, Vice President, Internal Audit

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**INVESTMENT MANAGEMENT**
- Asset Allocation & Management (AAM), Chicago, IL

---

**THE 2016 REPORT TO MEMBERS**

**DIRECTORS**
- Timothy Arone, Vice President, Risk Management Operations
- Brad Beck, Vice President, Finance & Strategy
- Josh Bland, Vice President, Information Technology
- Mark Buisson, Vice President, Sales & Marketing
- Christopher Cassady, Vice President, Regional Executive—Gulf
- Elliot Ebel, Vice President, Deputy Underwriting Officer
- Randall Davis, Vice President, Casualty Manager
- Frank DiGrande, Vice President, Property Claims
- William Doran, Vice President, National Product Management
- Jessica Furrow, Vice President, Regional Executive—Southern California
- James Hasley, Vice President, Regional Executive—Midwest
- Colin Haupt, Vice President, Human Resources
- Lindsay Holden, Vice President, Regional Executive—New England
- Kori Johanson, Vice President, Associate General Counsel
- William Johnson, Vice President, Large Account Underwriting Executive & Yacht Lead
- Adam Landau, Vice President, Senior Technology Officer
- John Louis, Vice President, Product Management
- Bryan Luken, Vice President, Regional Executive—Northern California
- Marlot McMichael, Vice President, Broker & Member Engagement
- Helen Merritt, Vice President, Assistant Controller
- Dawn Ramsay, Vice President, Regional Business Development Executive
- Jason Metzger, Vice President, Regional Executive—New York
- Kirk Raslowsky, Vice President, Associate General Counsel
- Karen Reimer, Vice President, Technology Implementations
- Susan Robinson, Vice President, Underwriting Specialist
- Alex Strange, Vice President, Regional Executive—West
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- Vandana Venkat, Vice President, Product Management
- David Wheelock, Vice President, Product Management
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