Private Wealth

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Business Management | Practice Development

High-End Protection

PURE insurance focuses exclusively on U.S. residents with homes valued at $1 million and up. BY RAYMOND FAZZI

THE CLIENT EXPERIENCE

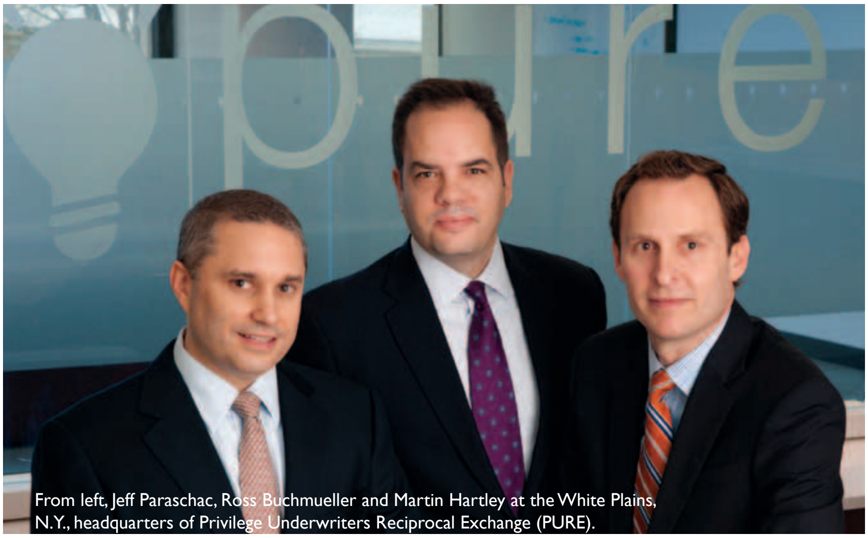
TOWARD THE END OF 2005, SHORTLY AFTER Hurricane Katrina devastated New Orleans and the surrounding Gulf Coast, three insurance industry veterans got together for a daring undertaking.

As other insurers were falling over each other to get out of the nation's hurricane-prone zones, this trio decided the time was right to start an insurance company and enter the very same high-risk market.

The billions upon billions of payouts that the insurance industry was enduring didn't matter. What did matter was that the Gulf Coast housing market was virtually devoid of meaningful competition when it came to home insurance for the high-net-worth sector. At the same time, they reasoned, there was a sizeable stock of expensive homes in the region, owned by wealthy families that could spend what it took to make them hurricane resistant.

"There is a very select group of high-net-worth individuals who are very responsible, who look after their property very well," says Martin Hartley, one of the three partners who founded White Plains, N.Y.-based Privilege Underwriters Reciprocal Exchange (PURE) in 2006. "Those are the people we were targeting."

Since signing up its first policyholders in January 2007, PURE has been able to grow its business, diversify its policies to include wealthy homeowners in other areas of the country, and successfully compete with big players such as Fireman's Fund, AIG and Chubb, which have traditionally dominated the high-end insurance market. The firm, which sells its policies largely through a network of independent agents, currently serves 14,000 policyholders in 35 states who pay more than $130 million in premiums per year. The company has a premium-to-surplus ratio of about 50% and a statutory surplus of $96 million, which has earned it a rating of "Excellent" from A.M. Best Company.


From left, Jeff Paraschac, Ross Buchmueller and Martin Hartley at the White Plains, N.Y., headquarters of Privilege Underwriters Reciprocal Exchange (PURE).

The firm targets policyholders with homes that cost at least $1 million to replace—a cutoff that places most of the firm's clientele in the nation's top-half percent of wealth, according to company officials. Most of the policyholders also use PURE to insure other personal possessions, including jewelry, cars and other collectibles, and on average pay about $10,000 for PURE insurance, according to the firm's founders. The average PURE policyholder actually holds more than two policies, according to the firm.

The firm will insure homes with a rebuild cost of up to $15 million and has at least one policyholder with a fine art collection covered by $25 million, Hartley says.

"This is a difficult industry to deliver returns to investors," says Jeffrey Paraschac, one of the founders and PURE's chief financial officer. "The exception is in niches like these that have limited competition."

Aligned Interests

As PURE President and CEO Ross Buchmueller tells it, when he, Paraschac and Hartley set out on their new venture six years ago, they knew they needed to rely on more than the dearth of competition in the high-end insurance sector to succeed. They needed a way to set themselves apart from the rest of the crowd.

Toward that goal, they were confident in the industry knowledge they brought to the table, as all three had years of experience in the high-net-worth insurance niche. Buchmueller was an executive with both Chubb and AIG, and in 1999 founded AIG Private Client Group, serving as its president for six years. Hartley and Paraschac also worked at AIG Private Client Group, and Hartley previously met Buchmueller at Chubb, when they were part of the team that expanded Chubb Masterpiece, the company's high-end insurance division, into London.

The idea for PURE, according to Buchmueller, grew out of a belief by all three that these market leaders underserved the high-net-worth sector. They felt that by starting a company that was devoted exclusively to this market, unencumbered by corporate red tape and legacy risk exposures, they could beat their competitors both in terms of price and service.

"One of the key things for us is that this is the only business that we're in, and I think that provides an advantage," Paraschac says.

Such specialization allows the firm to take a more refined approach to services and the type of risk that it insures, the founders say.

At its launch, for example, the firm signed policies only in Florida that were limited to relatively new homes built to the highest building code standards, with features such as concrete reinforcement and roof tiles tied with hurricane-proof straps, Hartley says. Indeed, about a third of the homes covered by PURE in 2007 were completed that same year.

"We started with a pool of members who were definitely going to outperform the average in that state," he says. "Our view is, if you think of insurance as a pool of risk, we are going to reserve our capacity to offer coverage to the best of the best."

The high-quality base of policyholders allows PURE to provide coverage that wouldn't be viable for its larger competitors, Buchmueller says.

He notes that PURE, on average, saves its policyholders about $3,200 per year in premiums over the like offerings of its competitors.

While homeowners insurance typically caps jewelry coverage at $5,000, PURE offers up to $50,000 in coverage in recognition of the fact that this could be a significant feature for high-net-worth families, Buchmueller says. The firm's standard home insurance also includes features designed to prevent damages, such as up to $2,500 for the installation of burglar or fire alarms, backup generators or other devices after incidents of $10,000 or more in damage.

Another key differentiator arose as the trio was trying to formulate PURE's service model. They started to notice, in survey after survey, that the insurance companies most respected by high-net-worth customers were those owned by policyholders.

Hence, the decision was made to use that ownership model for PURE. Under this structure, policyholders are considered members, or "subscribers," of the company, and as such are entitled to a full accounting of the company's financials in annual reports. For each of the first five years of a member's policy, 10% of home and watercraft policy premiums and 4% of auto, collectibles and umbrella liability premiums go into the surplus account.

Buchmueller says one of the chief advantages of this model is that it aligns the interests of the company and its policyholders—something that wealthy clients are looking for in all aspects of their financial services.

"It provides increased transparency and a sense of alignment," he says.

Weathering Storms

PURE, whose launch was financed by partner Stone Point Capital, a private equity firm that specializes in insurance, feels it is on the right track when it comes to remaining a viable competitor to the likes of Chubb and Fireman's Fund.

The firm's service footprint has continued to expand. After launching only in Florida, the firm is now licensed in 41 states, with plans to go nationwide within two or three years, according to the firm's founders.

But the company hasn't been immune to the risks and volatility that are the nature of the insurance business. The historic storm damage of 2011 was the company's toughest year in terms of insurance payouts. It was also the first year since the company's launch that PURE ended with a net decrease in its surplus account, by about $393,000, according to Buchmueller. By comparison, the company increased its surplus account the previous year by $2.1 million.

"It's going to be one of our more challenging years, but we're happy where we are from a capital basis," Paraschac says.

In its 2010 annual report, the firm noted that its Florida business was losing money, which resulted in an increase in premiums in that state and an end to wind coverage for about 1% of the firm's members living along the Gulf Coast of southwestern Florida. The firm said the cause of the problem was that the cost of policies in Florida, including reinsurance to protect against major hurricanes, was exceeding collected premiums.

The Florida situation contributed to an overall company loss in 2010, which is one of the reasons the company is branching out to the rest of the nation. After the company did all its initial business in Florida in 2007, the state now accounts for about 29% of its premiums, according to the 2010 annual report.

Buchmueller notes that years with high storm damage, such as the ones experienced in 2010 and 2011, are inevitable in the insurance business and impact companies across the board. PURE's unique strategy, he feels, has already proved itself viable going forward. While on a statutory accounting basis the company has yet to turn a net profit, he says the more important line item is the company's policyholder surplus, which had shown consistent net gains up until 2011.

"We're steadily growing assets, capital and premiums, and diversifying premiums," he says. "We're built for the long run." RW