WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-K
February 26, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda (State or other jurisdiction of incorporation or organization)	**94-2708455** (I.R.S. Employer Identification No.)
80 South Main Street **Hanover, New Hampshire** (Address of principal executive offices)	**03755-2053** (Zip Code)

Registrant s telephone number, including area code: **(603) 640-2200**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class		Name of each exchange on which registered
Common Shares, par value $1.00 per share		New York Stock Exchange Bermuda Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of June 30, 2009, was $1,787,727,354.

As of February 25, 2010, 8,843,656 common shares, par value of $1.00 per share, were outstanding (which includes 100,870 restricted common shares that were not vested at such date).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement to be filed with the Securities and Exchange Commission (SEC) pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act), relating to the Registrant s Annual General Meeting of Members scheduled to be held May 26, 2010 are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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PART I

Item 1. Business

GENERAL

White Mountains Insurance Group, Ltd. (the Company or the Registrant) is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. Within this report, the term White Mountains is used to refer to one or more entities within the consolidated organization, as the context requires. The Company s headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), an exempted Bermuda limited liability company that owns a family of U.S.-based property and casualty insurance companies (collectively OneBeacon), most of which operate in a multi-company pool. OneBeacon has historically offered a range of specialty, commercial and personal products and services sold primarily through independent agents and brokers. However, OneBeacon recently entered into two transactions that will transform it into a specialty lines company. On December 3, 2009, OneBeacon sold the renewal rights to its non-specialty commercial lines business and, on February 2, 2010, OneBeacon entered into a definitive agreement to sell its personal lines business. During the fourth quarter of 2006, White Mountains sold 27.6 million, or 27.6%, of OneBeacon Ltd. s common shares in an initial public offering (the OneBeacon Offering). As of December 31, 2009 White Mountains owned 75.4% of OneBeacon Ltd. s outstanding common shares.

The White Mountains Re segment consists of White Mountains Re Ltd., an exempted Bermuda limited liability company, and its subsidiaries (collectively, White Mountains Re). White Mountains Re offers reinsurance capacity for property, casualty, accident & health, agriculture, aviation and space, and certain other exposures on a worldwide basis through its subsidiaries, Sirius International Insurance Corporation (WMRe Sirius) and White Mountains Reinsurance Company of America (WMRe America , formerly known as Folksamerica Reinsurance Company). In September 2009, White Mountains Re substantially completed a reorganization of its Bermuda reinsurance operations whereby the in-force business and infrastructure of White Mountains Re Bermuda Ltd. (WMRe Bermuda) was transferred to WMRe Sirius, which established a branch office in Bermuda to maintain the group s presence in the Bermuda market. White Mountains Re also specializes in the acquisition and management of run-off insurance and reinsurance companies both in the United States and internationally, through its White Mountains Re Solutions division. White Mountains Re also includes Scandinavian Reinsurance Company, Ltd. (Scandinavian Re), which is in run-off, and the consolidated results of the Tuckerman Capital II, LP fund (Tuckerman Fund II), which was transferred to White Mountains Re from Other Operations, effective June 30, 2008.

The Esurance segment consists of Esurance Holdings, Inc., its subsidiaries and Answer Financial Inc. (Answer Financial) (collectively, Esurance). Esurance writes personal auto insurance directly to customers online and through select online agents. Esurance generates additional revenues from the placement of shoppers whose policies it does not write with unaffiliated insurance companies. Answer Financial, which White Mountains acquired during 2008, is an independent personal insurance agency that sells insurance online and through call centers for many insurance companies, including Esurance, utilizing a comparison quoting platform.

White Mountains Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), its variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (WM Life Re) and its weather risk management business. Both WM Life Re and the weather risk management business are in run-off. The Other Operations segment also includes White Mountains investments in Lightyear Delos Acquisition Corporation (Delos), common shares and warrants to purchase common shares of Symetra Financial Corporation (Symetra) and the consolidated results of the Tuckerman Capital, LP fund (Tuckerman Fund I) and Tuckerman Fund II until its transfer to White Mountains Re, effective June 30, 2008, as well as various other entities not included in other segments. The Other Operations segment also included the International American Group, Inc. (the International American Group) prior to its disposition in October 2008, which included American Centennial Insurance Company and British Insurance Company of Cayman, both of which were in run-off.

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White Mountains Operating Principles

White Mountains strives to operate within the spirit of four operating principles. These are:

Underwriting Comes First. An insurance enterprise must respect the fundamentals of insurance. There must be a realistic expectation of underwriting profit on all business written, and demonstrated fulfillment of that expectation over time, with focused attention to the loss ratio and to all the professional insurance disciplines of pricing, underwriting and claims management.

Maintain a Disciplined Balance Sheet. The first concern here is that insurance liabilities must always be fully recognized. Loss reserves and expense reserves must be solid before any other aspect of the business can be solid. Pricing, marketing and underwriting all depend on informed judgment of ultimate loss costs and that can be managed effectively only with a disciplined balance sheet.

Invest for Total Return. Historical insurance accounting has tended to hide unrealized gains and losses in the investment portfolio and over-reward reported investment income (interest and dividends). Regardless of the accounting, White Mountains must invest for the best growth in after-tax value over time. In addition to investing our bond portfolios for total after-tax return, that will also mean prudent investment in a balanced portfolio consistent with leverage and insurance risk considerations.

Think Like Owners. Thinking like owners has a value all its own. There are stakeholders in a business enterprise and doing good work requires more than this quarter s profit. But thinking like an owner embraces all that without losing the touchstone of a capitalist enterprise.

ONEBEACON

OneBeacon, whose United States headquarters are in Canton, Massachusetts, is a property and casualty insurance writer that provides a range of specialty insurance products. With roots dating back to 1831, OneBeacon has been operating for more than 175 years and has relationships with many independent agencies and brokers. At December 31, 2009 and 2008, OneBeacon had $7.5 billion and $7.9 billion of total assets and $1.4 billion and $1.2 billion of OneBeacon s shareholders equity. At December 31, 2009 and 2008, White Mountains reported $351 million and $284 million of noncontrolling interest related to its ownership in OneBeacon. OneBeacon wrote approximately $1.9 billion and $2.0 billion in net written premiums in 2009 and 2008.

The following table presents the financial strength ratings assigned to OneBeacon s principal insurance operating subsidiaries:

	A.M. Best(1)	Standard & Poor s(2)	Moody s(3)	Fitch(4)
Rating	A (Excellent)	A (Strong)	A2 (Good)	A (Strong)
Outlook	Stable	Watch Negative(5)	Negative	Negative

(1) A is the third highest of fifteen financial strength ratings assigned by A.M. Best Company (A.M. Best).

(2) A is the sixth highest of twenty-one financial strength ratings assigned by Standard & Poor s (S&P).

(3) A2 is the sixth highest of twenty-one financial strength ratings assigned by Moody s Investor Service (Moody s).

(4) A is the sixth highest of twenty-one financial strength ratings assigned by Fitch Ratings (Fitch).

(5) Placed on Watch Negative on February 2, 2010.

Recent Developments

OneBeacon recently entered into two transactions that will transform it into a specialty lines insurance company. OneBeacon expects that the transactions will free up significant capital, increase its financial flexibility and also substantially reduce its catastrophe exposure.

Commercial Lines. On December 3, 2009, OneBeacon sold the renewal rights to approximately $490 million in premiums from its non-specialty commercial lines business to The Hanover Insurance Group (The Hanover). The transaction included small commercial accounts and the non-specialty portion of the middle-market business, beginning with January 1, 2010 effective dates (the Commercial Lines Transaction). As consideration, OneBeacon received $23 million, and will receive an additional 10 percent of premiums renewed in excess of $200 million for the first renewal period. OneBeacon will continue to manage claims from business written prior to the Commercial Lines Transaction and from business written by The Hanover through June 30, 2010. The Hanover will reimburse OneBeacon for expenses incurred to provide the claims administration services.

Personal Lines. On February 2, 2010, OneBeacon entered into a definitive agreement to sell its personal lines business to Tower Group, Inc. (the Personal Lines Transaction). The transaction includes two insurance companies containing the personal lines business, and two attorneys-in-fact managing the reciprocal exchanges that write the personal lines business in New York and New Jersey. Net written premiums for the business being sold total approximately $420 million for the year ended December 31, 2009. As consideration, OneBeacon will receive an amount equal to the statutory surplus in the reciprocal exchanges (approximately $103 million at December 31, 2009, including the par value of the surplus notes issued by the exchanges), the GAAP equity in the insurance companies and attorneys-in-fact (approximately $45 million at December 31, 2009), plus $32.5 million. AutoOne Insurance (AutoOne) is not being sold as part of this transaction. The sale is subject to certain state regulatory approvals and is expected to close in the second quarter of 2010.

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Property and Casualty Insurance Overview

Generally, property and casualty insurance companies write insurance policies in exchange for premiums paid by their customers (the insured). An insurance policy is a contract between the insurance company and the insured where the insurance company agrees to pay for losses suffered by the insured that are covered under the contract. Such contracts often are subject to subsequent legal interpretation by courts, legislative action and arbitration. Property insurance generally covers the financial consequences of accidental losses to the insured s property, such as a home and the personal property in it, or a business building, inventory and equipment. Casualty insurance (often referred to as liability insurance) generally covers the financial consequences of a legal liability of an individual or an organization resulting from negligent acts and omissions causing bodily injury and/or property damage to a third party. Claims on property coverage generally are reported and settled in a relatively short period of time, whereas those on casualty coverage can take years, even decades, to settle.

OneBeacon derives substantially all of its revenues from earned premiums, investment income and net realized and unrealized gains and losses on investment securities. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, OneBeacon invests the premiums, earns investment income and generates net realized and unrealized investment gains and losses on investments.

Insurance companies incur a significant amount of their total expenses from policyholder losses, which are commonly referred to as claims. In settling policyholder losses, various loss adjustment expenses (LAE) are incurred such as insurance adjusters fees and litigation expenses. In addition, insurance companies incur policy acquisition expenses, such as commissions paid to agents and premium taxes, and other expenses related to the underwriting process, including their employees compensation and benefits.

The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company s combined ratio under accounting principles generally accepted in the United States (GAAP) is calculated by adding the ratio of incurred loss and LAE to earned premiums (the loss and LAE ratio) and the ratio of policy acquisition and other underwriting expenses to earned premiums (the expense ratio). A combined ratio under 100% indicates that an insurance company is generating an underwriting profit. However, when considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable.

Lines of Business

OneBeacon s business is managed through two underwriting units: (i) specialty lines and (ii) personal lines, nearly all of which is subject to the Personal Lines Transaction. OneBeacon s specialty lines businesses are national in scope, while its personal lines have been exclusively available in the eight Northeastern states (the New England states, New York and New Jersey). OneBeacon also has run-off business, which primarily consists of non-specialty commercial lines business which is being transferred to The Hanover, national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual Insurance Group (Liberty Mutual) effective November 1, 2001.

For the years ended December 31, 2009, 2008 and 2007, OneBeacon s net written premiums by line of business were as follows:

Net written premiums by line of business	**Year Ended December 31,**		
Millions	**2009**	**2008**	**2007**
Specialty (1)	**$ 946.2**	$ 836.9	$ 654.0
Personal	**508.7**	618.7	690.4
Run-off (2)	**451.8**	507.5	520.0
Total	**$ 1,906.7**	$ 1,963.1	$ 1,864.4

(1) Specialty lines now includes Technology, Financial Services, OneBeacon Specialty Property, and Property and Inland Marine businesses which were excluded from the Commercial Lines Transaction. Prior periods have been reclassified to conform to the current presentation.

(2) Run-off includes non-specialty commercial lines business subject to the Commercial Lines Transaction and other run-off business. Prior periods have been reclassified to conform to the current presentation.

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Specialty Lines

OneBeacon s specialty lines are a collection of niche businesses that focus on solving the unique needs of particular customer groups on a national scale. OneBeacon s specialty lines businesses provide distinct products and offer tailored coverages and services, managed by teams of market specialists. These businesses maintain stand-alone operations and distribution channels targeting their specific customer groups. OneBeacon s specialty lines include several businesses focused on smaller property-casualty insurance segments where particular expertise and relationships with similarly focused distribution partners has resulted historically in strong operating results. These businesses maintain their competitive advantage through a deep knowledge of their respective customers and markets. As a result of entering into the Commercial Lines Transaction, OneBeacon s specialty lines now includes Technology, Financial Services, OneBeacon Specialty Property, and Property and Inland Marine businesses, which were formerly included in OneBeacon s commercial lines underwriting unit. OneBeacon s specialty lines businesses include:

- *OneBeacon Professional Insurance (OBPI):* OBPI, formerly known as OneBeacon Professional Partners, specializes in professional liability insurance products for an increasingly broad range of industry groups. OBPI s original focus on health-care related liability insurance continues while expansion into non-health-care related liability insurance segments has increased over the last five years. Medical liability insurance for health-care industry segments, including hospitals, physician groups, managed care organizations, long-term care facilities and other non-hospital medical facilities, represents the most significant share of OBPI s business. Additionally, OBPI offers stop loss insurance to certain health-care providers through its provider excess insurance and HMO reinsurance products. Errors and omissions liability insurance coverage is also provided to business segments including design professionals for the construction industry, law firms, in-house counsel, realtors and media organizations. Management liability coverage, specifically directors and officers and employment practices insurance, is offered on a limited basis to some of the business segments noted above. Underwriting, claims and risk control services are managed internally. OBPI s policies are primarily issued on a claims made basis, which covers losses reported during the time period when a liability policy is in effect, regardless of when the event causing the claim actually occurred.

- *Collector Cars and Boats:* In the second quarter of 2008, OneBeacon began to provide property and casualty insurance solutions through an exclusive partnership with Hagerty Insurance Agency and Hagerty Classic Marine Insurance Agency (Hagerty), the nation s premier collector car and classic boat agencies. Hagerty s specialty services include collector car and wooden boat insurance, automotive museum insurance, restoration shop insurance, vehicle valuation, financing and roadside assistance, as well as a variety of useful information resources. Its Hagerty Plus community of collector car enthusiasts has over 280,000 members. Hagerty works proactively on hobby advocacy and supports the Collectors Foundation, a nonprofit organization formed by Hagerty and dedicated to the preservation of the hobby.

- *International Marine Underwriters (IMU):* A leading provider of marine insurance, this business traces its roots back to the early 1900s. IMU coverages include physical damage or loss and general liability for cargo and commercial hull, both at primary and excess levels. IMU also offers coverage for marinas, including a package product with comprehensive property and liability coverage, and yachts, the offerings for which were strengthened by IMU s acquisition in October 2006 of yacht-specialist National Marine Underwriters, Inc., a yacht insurance managing general agency. IMU does not offer offshore energy products. Target customers include ferry operators and charter boats (hull), marina operators and boat dealers (package product) and private-pleasure yachts with hull values of less than $1 million.

- *Technology:* Technology s customer groups include hardware manufacturers, software companies, and telecommunications service providers. OneBeacon s custom @vantage for Technology policies provides coverage for technology customers unique needs including specialized professional liability such as data privacy, communications and errors and omissions liability, both domestically and internationally. Within the Technology segment, OneBeacon also specializes further with a product tailored for medical technology customers available on a claims-made or occurrence basis that also provides protection worldwide. Within this class, OneBeacon targets medical device manufacturers and operations.

- *Property and Inland Marine (PIM):* The PIM segment provides monoline property and inland marine products. OneBeacon s property focus is on the real estate, health-care, education, aviation, municipality and manufacturing sectors, while inland marine targets the construction, transportation and fine arts segments. OneBeacon delivers creative and tailored solutions that fit its customers   unique needs through broad coverage forms and specialized risk control and claims handling capabilities.

- *A.W.G. Dewar (Dewar):* A leading provider of tuition reimbursement insurance since 1930, Dewar s product protects both schools and parents from the financial consequences of a student s withdrawal or dismissal from school. The tuition refund plan reimburses parents up to 100% of tuition, room and board fees when a student is obliged to leave school due to covered reasons, such as medical or expulsion. Dewar provides customized policies to independent schools and colleges in North America.

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- *Specialty Accident and Health (A&H):* A&H provides accident insurance principally to employer groups, associations and affinity groups. A&H s products include corporate accident, travel accident and occupational accident coverage, which is primarily targeted to the trucking industry. In the fourth quarter of 2008, A&H launched OneBeacon Services to provide employer and affinity groups with access to a suite of services to help manage today s emerging issues. OneBeacon Services include a discounted prescription drug program, identity theft resolution services and travel assistance services. The A&H group distributes products through independent agents and brokers and selectively markets directly to customers.

- *Entertainment Brokers International Insurance Services (EBI):* Acquired in the third quarter of 2008, EBI provides specialized commercial insurance products, including professional liability coverages, for the entertainment, sports and leisure industries. EBI continues to operate as a managing agency with a network of 500 independent agents and brokers. EBI also operates a brokerage operation offering excess workers compensation coverages and a high value homeowners product.

- *Financial Services:* The Financial Services segment commenced operations in October 2005 by targeting a broad range of financial services companies including credit unions, investment advisers, securities broker/dealers, insurance companies and commercial banks. Through its @vantage for Financial Services product, OneBeacon provides customers with broad property and general liability protection. For community banks with under $3 billion in assets, the product may be augmented with specialized professional liability coverages.

- *OneBeacon Specialty Property (OBSP):* OBSP provides protection against certain damages over and above those covered by primary policies or a large self-insured retention. Target classes include apartments and condominiums, commercial real estate, small-to-medium manufacturing, retail/wholesale and public entity and educational institutions. OBSP targets customers with low catastrophe-exposed risks. OBSP solutions are provided primarily through surplus lines wholesalers in all 50 states and the District of Columbia.

- *OneBeacon Government Risks (OBGR):* Formed in March 2007, this group offers property and casualty products for government entities. The products include automobile, property, general liability and professional liability coverages. The professional liability offerings consist of law enforcement, public officials and employment practice coverage. Markets served include cities, towns, townships, counties, transit authorities, government agencies, special districts and pools (groups of public entities). OBGR strategically distributes its products through agents and brokers.

- *OneBeacon Energy (OBEG):* OBEG began offering property and casualty products in July 2009 to companies engaged in traditional upstream and midstream oil and gas production, storage and distribution and companies who use renewable energy resources to generate power or produce alternative fuels. OBEG s coverages include monoline property, monoline general liability, general liability combined with automobile liability and lead umbrella. All coverages offered are specifically tailored for these markets and risks. OBEG does not offer offshore energy products. Market-leading agents and brokers that specialize in the energy business strategically distribute OBEG s products throughout the United States.

For the years ended December 31, 2009, 2008 and 2007, OneBeacon s specialty lines net written premiums were as follows:

Year Ended December 31,

Specialty lines net written premiums (1) **Millions**	**2009**	**2008**	**2007**
OBPI	**$ 266.9**	$ 239.9	$ 213.9
Collector Cars and Boats	**144.8**	110.0	
IMU	**135.5**	157.0	158.6
Other specialty lines (2)	**399.0**	330.0	281.5
Total specialty lines	**$ 946.2**	$ 836.9	$ 654.0

(1) Specialty lines now includes Technology, Financial Services, OBSP and PIM which were formerly reported in commercial lines. Prior periods have been reclassified to conform to the current presentation.

(2) Other specialty lines includes EBI, A&H, OBGR, OBEG, Dewar, Technology, Financial Services, OBSP and PIM. No individual business included in other specialty lines generated greater than $85 million in annual net written premiums.

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Personal Lines

OneBeacon s personal lines underwriting unit is comprised of traditional personal lines, which is subject to the Personal Lines Transaction, and AutoOne. For the years ended December 31, 2009, 2008 and 2007, personal lines net written premiums were as follows:

Personal lines net written premiums	**Year Ended December 31,**		
Millions	**2009**	**2008**	**2007**
Traditional excluding reciprocals	**$ 225.5**	$ 296.4	$ 338.0
Reciprocals	**194.4**	203.2	221.3
Traditional personal lines	**419.9**	499.6	559.3
AutoOne	**88.9**	119.9	134.6
Other(1)	**(.1)**	(.8)	(3.5)
Total personal lines	**$ 508.7**	$ 618.7	$ 690.4

(1) Represents elimination between traditional personal lines and AutoOne.

Traditional personal lines:

OneBeacon s traditional personal lines provided a comprehensive suite of personal insurance products sold through select independent agents with a focus on eight Northeastern states. OneBeacon s personal lines products include:

- *Automobile:* consists of physical damage and liability coverage. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft or other causes. Automobile liability insurance covers bodily injury of others, damage to their property and costs of legal defense resulting from a collision caused by the insured.

- *Homeowners:* covers losses to an insured s home, including its contents, as a result of weather, fire, theft and other causes, and losses resulting from liability for acts of negligence by the insured or the insured s immediate family. OneBeacon also offers identity theft resolution assistance and identity theft expense reimbursement coverage as part of its homeowners policies.

- *Package:* consists of customized combination policies offering home and automobile coverage with optional umbrella and boatowners coverage.

Within traditional personal lines, in addition to automobile, homeowners and package policy offerings, OneBeacon also includes management services provided to reciprocals and the consolidation of the reciprocals described below.

- *Traditional personal lines excluding reciprocals:* To maintain a high degree of flexibility, in 2004 OneBeacon created a highly segmented product suite, called OneChoice. OneChoice is a multi-tiered product suite that enables OneBeacon to offer a broader range of coverages to a full spectrum of customers through more sophisticated pricing models that have a greater statistical correlation between historical loss experience and price than traditional pricing models. This product suite offers both automobile and homeowners coverages as well as package policies such as OneChoice CustomPac, OneBeacon s flagship package policy. OneChoice products rely on multiple, objective pricing tiers and rules-based underwriting that enable agents to offer OneBeacon solutions to a broad array of their customers and increase its market penetration. OneBeacon regularly refines its product features and rating plans to optimize target market production. Ease of use is a critical aspect of this business. Investments in technology have provided opportunities for agents to access OneChoice through either OneBeacon s web-based proprietary agent portal or through comparative raters.

- *Reciprocals:* OneBeacon provides management services for a fee to three reciprocal insurance exchanges, which OneBeacon refers to as reciprocals. The reciprocals offer the OneChoice product as described above. OneBeacon created and capitalized these reciprocals by lending them funds in exchange for surplus notes. Reciprocals are policyholder-owned insurance carriers organized as unincorporated associations. OneBeacon has no ownership interest in these reciprocals. As required by GAAP, White Mountains consolidated financial statements reflect the consolidation of these reciprocals. **See Note 17 Variable Interest Entities** of the accompanying consolidated financial statements.

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AutoOne:

AutoOne is a market leader in assigned risk business in New York. Assigned risk plans provide automobile insurance for individuals unable to secure coverage in the voluntary market. Insurance carriers are obliged to accept future assignments from state assigned risk pools as a condition of maintaining a license to write automobile business in the state. However, carriers may satisfy their assigned risk obligation by buying out of their assignments through an agreement with an approved Assigned Risk Servicing Company or limit their assignments through the purchase and transfer of credits (for example, take-out, territorial and youthful driver credits). AutoOne offers services known as Limited Assignment Distribution (LAD) and Commercial Limited Assignment Distribution (CLAD) and credit programs to insurance carriers. AutoOne provides 28 LAD and CLAD programs in 21 states and the District of Columbia where assigned risk obligations may be assumed by a servicing carrier under a negotiated fee arrangement.

AutoOne also writes voluntary take-out business (policies taken out of the assigned risk pool and written in the voluntary market) by selecting policies from the assigned risk business it has assumed for its clients and from select insurance brokers that replace their clients assigned risk policies with AutoOne policies. AutoOne receives credits for all premiums taken out of the assigned risk plan which it can use either to reduce its future assigned risk obligations or sell to other carriers that can use the credits to reduce their own quota obligations.

Run-off

Run-off consists of non-specialty commercial lines business included in the Commercial Lines Transaction, as well as national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual effective November 1, 2001.

On December 3, 2009, OneBeacon sold the renewal rights to its non-specialty commercial lines business to The Hanover. The transaction includes small commercial accounts and the non-specialty portion of the middle-market business, beginning with January 1, 2010 effective dates. OneBeacon will continue to manage claims from its non-specialty commercial lines policies written prior to the January 1, 2010 effective date of the Commercial Lines Transaction and from business written by The Hanover through June 30, 2010. The Hanover will reimburse OneBeacon for expenses incurred to provide the claims administration services.

Beginning in 2001, national accounts and certain specialty programs were discontinued. On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual pursuant to a renewal rights agreement (the Liberty Agreement). The Liberty Agreement pro-rated results so that OneBeacon assumed approximately two-thirds of the operating results from renewals through October 31, 2002 and approximately one-third of the operating results from renewals through October 31, 2003. The renewal rights under the Liberty Agreement expired on October 31, 2003. OneBeacon continues to manage claims from the discontinued national accounts and specialty programs business as well as the claims related to the business that was subject to the Liberty Agreement.

Geographic Concentration

OneBeacon s net written premiums are derived solely from business produced in the United States. Business from specialty, personal and run-off lines was produced in the following states:

	Year Ended December 31,		
Net written premiums by state	**2009**	**2008**	**2007**
New York	**18%**	21%	22%
Massachusetts	**12**	14	16
California	**11**	9	8
New Jersey	**7**	8	8
Connecticut	**5**	6	6
Texas	**4**	3	3
Maine	**4**	5	6
Other(1)	**39**	34	31
Total	**100%**	100%	100%

(1) No individual state is greater than 4% of specialty, personal or run-off net written premiums for the years ended December 31, 2009, 2008 and 2007.

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As a result of the Commercial Lines Transaction and the Personal Lines Transaction, OneBeacon expects its geographic premium distribution going forward to be consistent with its historical specialty lines premiums, which were produced in the following states for the years ended December 31, 2009, 2008 and 2007:

Specialty Lines(1)	**Year Ended December 31,**		
Net written premiums by state	**2009**	**2008**	**2007**
California	**13%**	12%	10%
New York	**9**	9	9
Texas	**7**	7	5
Florida	**6**	6	8
Massachusetts	**6**	5	7
New Jersey	**4**	4	5
Other(2)	**55**	57	56
Total	**100%**	100%	100%

(1) Specialty lines now includes Technology, Financial Services, OBSP and PIM which were formerly reported in commercial lines. Prior periods have been reclassified to conform to the current presentation.

(2) No individual state is greater than 4% of specialty net written premiums for the years ended December 31, 2009, 2008 and 2007.

Marketing and Distribution

OneBeacon offers its products through a network comprised of independent agents, regional and national brokers and wholesalers. OneBeacon s distribution relationships consist of approximately 3,400 agencies and brokers. In recent years, OneBeacon has expanded its distribution channels to include select managing general agencies (MGAs), either through acquisitions or exclusive relationships. These MGAs focus on a particular customer group with tailored products and services, and related expertise.

OneBeacon s specialty lines businesses are managed from locations logistically appropriate to their target markets. OBPI is based in Avon, Connecticut and distributes its products through select national and regional brokers and agents. IMU is headquartered in New York City and operates through ten locations throughout the United States. Its products are distributed through a network of select agencies that specialize in marine business. OneBeacon s collector cars and boats business is written through an exclusive MGA relationship with Hagerty. This relationship has an initial term of 5 years and will be up for renewal in the second quarter of 2013. Dewar s affiliate, A.W.G. Dewar Agency, which is located in Quincy, Massachusetts, distributes tuition refund products to independent schools and colleges throughout North America. A&H conducts business through independent agents and brokers and selectively markets directly to customers. EBI, an MGA, sells directly and through a network of independent agents through locations in New York City and California. OBGR strategically distributes its products through agents and brokers. OBEG sells through a network of regional agencies and brokers that specialize in the energy industry. Technology, Financial Services, PIM and OBSP are distributed through a network of select independent insurance agencies.

Personal lines products are exclusively available in the eight northeastern states through a network of select independent insurance agencies.

OneBeacon protects the integrity of its franchise value by selectively appointing agents that demonstrate business and geographic profiles that align with its target markets and specialized capabilities. OneBeacon believes in the added value provided by independent insurance agents as they conduct more complete assessments of their clients needs, which result in more appropriate coverages and prudent risk management. OneBeacon also believes that independent agents will continue to be a significant force in overall industry premium.

New York-based AutoOne markets its LAD and CLAD services and New York take-out credits directly to insurance carriers seeking assigned risk solutions. AutoOne generates take-out credits by writing policies from select insurance brokers that were previously in the New York Automobile Insurance Plan (NYAIP), and sells these credits to insurance companies subject to NYAIP assignments.

Underwriting and Pricing

OneBeacon believes there must be a realistic expectation of attaining an underwriting profit on all the business it writes, as well as a demonstrated fulfillment of that expectation over time. Consistent with OneBeacon s underwriting comes first operating principle, adequate pricing is a critical component for achieving an underwriting profit. OneBeacon underwrites its book with a disciplined approach towards pricing its insurance products and is willing to forgo a business opportunity if it believes it is not priced appropriately to the exposure.

OneBeacon uses tiered rating plans in its personal lines, which permits it to offer more tailored price quotes to its customers based on underwriting criteria applicable to each tier. The enhanced accuracy and precision of OneBeacon s rate plans enable it to more confidently price its products to the exposure, and thereby permit OneBeacon s agency partners to deliver solutions to a broader range of customers.

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OneBeacon also actively monitors pricing activity and measures usage of tiers, credits, debits and limits. In addition, OneBeacon regularly updates base rates to achieve targeted returns on capital and attempts to shift writings away from lines and classes where pricing is inadequate. To the extent changes in premium rates, policy forms or other matters are subject to regulatory approval (see **REGULATION United States** and **Risk Factors *Regulation may restrict our ability to operate***), OneBeacon proactively monitors its pending regulatory filings to facilitate, to the extent possible, their prompt processing and approval. Lastly, OneBeacon expends considerable effort to measure and verify exposures and insured values.

Competition

Property and casualty insurance is highly competitive. OneBeacon s competitors include numerous domestic and international insurers, including regional companies, mutual companies, specialty insurance companies, underwriting agencies and diversified financial services companies, some of which have greater financial and marketing resources. The more significant competitive factors for most insurance products OneBeacon offers are price, product terms and conditions, agency and broker relationships and claims service. OneBeacon s underwriting principles and dedication to independent distribution partners are unlikely to make it the low-cost provider in most markets. While it is often difficult for insurance companies to differentiate their products, OneBeacon believes that by providing superior specialty products to satisfy well-defined market needs and relying on agents and brokers who value our targeted expertise, superior claims service, and disciplined underwriting, they establish their competitive advantage. The continued existence of carriers operating with lower cost structures places ongoing pressure on OneBeacon s pricing and terms and conditions, which may impact its ability to compete.

Claims Management

Effective claims management is a critical factor in achieving satisfactory underwriting results. OneBeacon maintains an experienced staff of appraisers, medical specialists, managers, staff attorneys and field adjusters strategically located throughout its operating territories. OneBeacon also maintains a special investigative unit designed to detect insurance fraud and abuse and support efforts by regulatory bodies and trade associations to curtail fraud.

Claims are separately organized by the respective operations. Through 2009, claims have been organized by specialty, commercial, personal and run-off operations. No change has been made within claims management related to business subject to the Commercial Lines Transaction. This approach allows OneBeacon to better identify and manage claims handling costs. In addition, a shared claims service unit manages costs related to both staff and vendors. OneBeacon has adopted a total claims cost management approach that gives equal importance to controlling claims handling expenses, legal expenses and claims payments, enabling OneBeacon to lower the sum of the three. This approach requires the utilization of a considerable number of conventional metrics to monitor the effectiveness of various programs implemented to lower total loss costs. The metrics are designed to guard against implementation of expense containment programs that will cost OneBeacon more than it expects to save.

OneBeacon s claims department utilizes a claims workstation to record reserves, payments and adjuster activity and, with support from expert tools, assists each claim handler in the identification of recovery potential, estimating property damage, evaluating claims and identifying fraud. OneBeacon s commitment and performance in fighting insurance fraud has reduced claim costs and aided law enforcement investigations. Under OneBeacon s staff counsel program, OneBeacon s in-house attorneys defend the majority of new lawsuits, which has resulted in savings when compared to the cost of using outside counsel.

Calendar year reported claims in OneBeacon s legacy run-off operations, which excludes business subject to the Commercial Lines Transaction, were 1,400 in 2009 compared to 1,600 in 2008, a 13% reduction, in part due to the lapse of time and the nature of run-off operations. These levels of reported claims are down from 1,800 in 2007, 2,400 in 2006 and 3,400 in 2005. Total open claims for legacy run-off operations were 4,000 at December 31, 2008 compared to 4,600 at December 31, 2008, a 14% reduction, which reflects the success of OneBeacon s focus on settling claims from its legacy run-off operations. Total open claims for legacy run-off operations were 5,500 in 2007, 7,300 in 2006 and 10,200 in 2005.

OneBeacon has a reinsurance contract with National Indemnity Company (NICO) to help protect against potential asbestos and environmental (A&E) claims (the NICO Cover). See **Reinsurance Protection and Catastrophe Management**. NICO has retained a third-party administrator (TPA), Resolute New England (Resolute), formerly Cavell USA, to manage the claims processing for A&E claims reinsured under the NICO Cover. OneBeacon s claims department personnel are consulted by NICO and Resolute on major claims. As with all TPAs, claims department personnel continually monitor Resolute to ensure its controls, processes and settlements are appropriate.

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Reinsurance Protection and Catastrophe Management

In the ordinary course of its business, OneBeacon purchases reinsurance from high-quality, highly rated, third party reinsurers in order to minimize loss from large risks or catastrophic events.

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to OneBeacon s operating results and financial position. Examples of catastrophes include losses caused by earthquakes, wildfires, hurricanes and other types of storms and terrorist acts. The extent of losses caused by catastrophes is a function of the amount and type of insured exposure in an area affected by the event as well as the severity of the event. OneBeacon uses models (primarily AIR Version 11) to estimate the probability of the occurrence of a catastrophic event as well as potential losses under various scenarios. OneBeacon uses this model output in conjunction with other data to manage its exposure to catastrophe losses through individual risk selection and by limiting its concentration of insurance written in catastrophe-prone areas such as coastal regions. In addition, OneBeacon imposes wind deductibles on existing coastal windstorm exposures. OneBeacon believes that its largest single event natural catastrophe exposures are Northeastern United States windstorms and California earthquakes.

OneBeacon seeks to further reduce its potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective July 1, 2009, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2010. The program provides coverage for OneBeacon s personal and commercial property business, as well as certain acts of terrorism. Under the program, the first $100 million of losses resulting from any single catastrophe are retained and the next $750 million of losses resulting from the catastrophe are reinsured. Any loss above $850 million would be retained. In the event of a catastrophe, OneBeacon s property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium. OneBeacon anticipates that the $850 million limit is sufficient to cover Northeast windstorm losses with a 0.4%-0.5% probability of occurrence (1-in-250-year event to 1-in-200-year event).

Effective January 1, 2009, in an effort to further reduce its property catastrophe exposure in the Northeast, OneBeacon entered into a quota share agreement with a group of reinsurers to cede 30% of its Northeast personal lines homeowners business written through OneBeacon Insurance Company (OBIC) and its subsidiary companies, along with Adirondack Insurance Exchange (Adirondack) and New Jersey Skylands Insurance Association in New York and New Jersey, respectively. The program provides supplemental protection to previously established reinsurance described above. The reinsurers are all rated A (Excellent, the third highest of fifteen financial strength ratings) or better by A.M. Best. Effective January 1, 2010, OneBeacon renewed the quota share agreement.

OneBeacon s property catastrophe reinsurance program does not cover personal or commercial property losses resulting from nuclear events or biological, chemical or radiological terrorist attacks or losses resulting from acts of terrorism as defined under the Terrorism Risk Insurance Act of 2002 (the Terrorism Act or TRIA), as amended, committed by an individual or individuals acting on behalf of any foreign person or foreign interest. See **Terrorism**.

OneBeacon s non-specialty commercial lines business that was subject to the Commercial Lines Transaction will run off throughout 2010, reducing OneBeacon s overall catastrophe profile. OneBeacon anticipates that the Commercial Lines Transaction will result in a reduction in its exposure to Northeast windstorm losses in 2010. Additionally, OneBeacon anticipates that the Personal Lines Transaction, which is subject to certain regulatory approvals and is expected to close in the second quarter of 2010, will also significantly reduce its Northeast windstorm exposures.