WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-K
February 27, 2009
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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, 2008

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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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. x

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. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	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, 2008, was $4,114,533,852.

As of February 27, 2009, 8,854,163 common shares, par value of $1.00 per share, were outstanding (which includes 90,120 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 June 4, 2009 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 are located at Bank of Butterfield Building, 42 Reid Street, Hamilton, Bermuda HM 12, 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 offers a wide range of specialty, commercial and personal products and services sold primarily through select independent agents and brokers. 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, 2008 and 2007, White Mountains owned 75.5% and 72.9% 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, White Mountains Reinsurance Company of America (WMRe America), which was formerly known as Folksamerica Reinsurance Company, Sirius International Insurance Corporation (WMRe Sirius) and White Mountains Re Bermuda Ltd. (WMRe Bermuda). 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 sells personal auto insurance directly to customers online and through select online agents. Answer Financial, which White Mountains acquired during 2008, is a personal insurance agency selling online and in call centers.

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 weather risk management business, Galileo Weather Risk Management Ltd. and Galileo Weather Risks Advisors Limited (collectively, Galileo), its variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (WM Life Re), as well as the International American Group, Inc. (the International American Group) and its subsidiaries, which were disposed in October 2008. The Other Operations segment also includes White Mountains investments in Lightyear Delos Acquisition Corp. (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.

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.

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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 is in Canton, Massachusetts, is a property and casualty insurance writer that provides a range of specialty insurance products as well as a variety of segmented commercial and personal insurance products. With roots dating back to 1831, OneBeacon has been operating for more than 175 years and has many long-standing relationships with independent agencies, which constitute its primary distribution channel. At December 31, 2008 and 2007, OneBeacon had $7.9 billion and $9.5 billion of total assets and $1.2 billion and $1.9 billion of shareholders equity. At December 31, 2008 and 2007, White Mountains reported $284 million and $517 million of minority interest related to its ownership in OneBeacon. OneBeacon wrote approximately $2.0 billion and $1.9 billion in net written premiums in 2008 and 2007.

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	Negative	Stable	Stable

(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).

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, investment income is generated, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities. Effective January 1, 2008, OneBeacon elected to report unrealized gains and losses on investments through income as a component of revenues. Prior to that, unrealized gains and losses were recorded directly to shareholders equity as a component of other comprehensive income.

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.

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Lines of Business

OneBeacon s business is managed through three major underwriting units: specialty lines, commercial lines and personal lines. OneBeacon s specialty lines businesses are national in scope, while its commercial lines products are available in select territories throughout the United States and personal lines are 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 national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual Insurance Group (Liberty Mutual) effective November 1, 2001.

For the twelve months ended December 31, 2008, 2007 and 2006, OneBeacon s net written premiums by line of business were as follows:

Net written premiums by line of business	**Year Ended December 31,**		
Millions	**2008**	**2007**	**2006**
Specialty	**$ 621.9**	$ 440.3	$ 433.9
Commercial	**722.1**	733.4	722.0
Personal	**618.7**	690.4	800.6
Run-off	**.4**	.3	1.1
Total	**$ 1,963.1**	$ 1,864.4	$ 1,957.6

Specialty lines

OneBeacon s specialty lines underwriting unit is a collection of niche businesses that focus on solving the unique needs of particular customer groups on a national scale. Each of these businesses maintains stand-alone operations and distribution channels targeting their specific customer groups. OneBeacon s specialty lines businesses provide distinct products and offer tailored coverages and services, managed by teams of market specialists. OneBeacon s specialty lines businesses include:

- *OneBeacon Professional Partners (OBPP):* Formed in 2002, OBPP specializes in professional liability insurance products for an increasingly broad range of industry groups. OBPP 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 four 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 OBPP s business. Additionally, OBPP 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 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. OBPP 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.

- *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 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.

- *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 and 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.

- *Specialty Accident and Health (A&H):* Formed in November 2006, this group provides accident insurance, principally to employer groups (mid-sized organizations to Fortune 1000 companies), associations and other 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 other affinity groups with access to a suite of services to help manage today s emerging issues. 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.

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- *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.

- *Specialty Collector Car and Boat:* 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, 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.

- *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.

Each of these businesses maintains 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.

For the twelve months ended December 31, 2008, 2007 and 2006, OneBeacon s specialty lines net written premiums were as follows:

Specialty lines net written premiums	**Year Ended December 31, (1)**		
Millions	**2008**	**2007**	**2006**
OBPP	**$ 239.9**	$ 213.9	$ 179.3
IMU	**157.0**	158.6	139.9
Specialty collector car and boat	**110.0**		
Other on-going specialty lines	**115.0**	67.8	50.0
Total on-going specialty lines	**621.9**	440.3	369.2
Agri(2)			64.7
Total specialty lines	**$ 621.9**	$ 440.3	$ 433.9

(1) In the first quarter of 2008, OneBeacon began to include Community Banks within commercial lines. Community Banks was formerly reported in specialty lines. Prior periods have been reclassified to conform to the current presentation.

(2) OneBeacon sold the renewal rights to its Agri division policies on September 29, 2006.

Commercial lines

OneBeacon s specialized approach to commercial lines features a suite of customized products and services that target certain industry groups supported by teams of seasoned underwriting, risk control and claims specialists. This targeted industry focus has resulted in favorable loss ratios and strong customer retention levels. In recent years, OneBeacon has continued to selectively expand into new geographic territories that align well with its targeted approach. OneBeacon s commercial lines products include:

- *Multi-peril:* a package policy sold to small to mid-sized insureds or to members of trade associations or other groups that includes general liability and property insurance.

- *Automobile:* 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.

- *Workers compensation:* covers an employer s liability for injuries, disability or death of employees, without regard to fault, as prescribed by state workers compensation law and other statutes.

- *Inland marine:* covers property that may be in transit or held by a bailee at a fixed location, movable goods that are often stored at different locations or property with an unusual antique or collector s value.

- *Property:* covers losses to a business premises, inventory and equipment as a result of weather, fire, theft and other causes.

- *Excess and surplus property:* provides excess property coverage against certain damages over and above those covered by primary policies or a large self-insured retention.

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• *General Liability:* covers businesses for any liability resulting from bodily injury and property damage arising from general business operations, accidents on a premises and products manufactured or sold.

• *Umbrella:* supplements existing insurance policies by covering losses from a broad range of insurance risks in excess of coverage provided by the primary insurance policy up to a specified limit.

OneBeacon s commercial lines underwriting unit is comprised of middle-market and small-business divisions.

Middle market:

OneBeacon s commercial lines middle-market business division targets select industry segments through its suite of @vantage products. OneBeacon s middle-market customers typically produce annualized gross premiums ranging from $25,000 to $1,000,000 and principally purchase package policies (combination policies offering property and liability coverage). OneBeacon targets 15 distinct customer groups with a primary focus on technology and financial services, as well as property and inland marine product offerings and excess property solutions. OneBeacon also produces some standard commercial business that is not targeted to a specific industry group. By partnering with OneBeacon s specialty lines businesses, OneBeacon s middle-market business can deliver a seamless, comprehensive OneBeacon solution, which management believes is a competitive advantage for OneBeacon and for its agents. Middle-market business is produced through regional and national agencies and brokers, and also provides excess property solutions primarily through surplus lines wholesalers. OneBeacon places particular emphasis on the following target segments and products:

• *Technology:* OneBeacon s target technology customer groups include hardware manufacturers, software companies, and telecommunications service providers with annual revenues up to $1 billion and fewer than 500 employees. OneBeacon s custom @vantage for Technology policies provide coverages 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 specializes further with a product tailored for medical technology customers available on a claims-made or occurrence basis and that also provides protection worldwide. Within this class OneBeacon targets medical device manufacturers and operations.

• *Financial services:* This segment targets a broad range of financial services companies including credit unions, investment advisors, 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, OneBeacon augments its property and general liability protection with specialized professional liability coverages.

- *Property and inland marine:* In this segment, OneBeacon offers a broad selection of products and services with a concentration in three key areas: construction, fine arts and transportation. OneBeacon s approach is to provide solutions that are creative and tailored to fit its customers needs with broad coverage forms, specialized risk control and claims handling. OneBeacon s target customers additionally benefit from OneBeacon s partnerships with job site and equipment theft prevention firms and fine arts appraisal and risk management organizations.

- *OneBeacon Specialty Property (OBSP):* OBSP provides excess property 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. OneBeacon s excess property solutions are provided primarily through surplus lines wholesalers in all 50 states and the District of Columbia.

Small business:

OneBeacon s commercial lines small business division focuses on certain industry classes through its comprehensive business owners OnePac policy. OneBeacon targets 14 general industry groups as well as some association and affinity group businesses that provide a highly competitive solution for select agents. Coverages include automobile, workers compensation and umbrella augmented with customized coverages and limits aligned to OneBeacon s target classes. Small business customers typically generate annualized premiums ranging from $500 to $25,000. Small business is produced through regional and national agencies as well as aggregators representing smaller local agencies. OneBeacon s proprietary web platform, which expedites underwriting at the point of sale, enables growth in its newer territories while limiting the need for infrastructure. OneBeacon s small business service center provides customer administration for enrolled agents.

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For the years ended December 31, 2008, 2007 and 2006, commercial lines net written premiums were as follows:

Commercial lines net written premiums						
	Year Ended December 31, (1)					
Millions		**2008**		**2007**		**2006**
Middle market	**$**	**566.6**	$	595.6	$	619.7
Small business		**155.5**		137.8		102.3
Total commercial lines	**$**	**722.1**	$	733.4	$	722.0

(1) In the first quarter of 2008, OneBeacon began to include Community Banks within commercial lines. Community Banks was formerly reported in specialty lines. Prior periods have been reclassified to conform to the current presentation.

Personal Lines

OneBeacon s personal lines underwriting unit provides 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.

OneBeacon s personal lines underwriting unit is comprised of traditional personal lines and AutoOne Insurance (AutoOne).

Traditional personal lines:

Within traditional personal lines, in addition to automobile, homeowners and package policy offerings, OneBeacon also includes management services provided to reciprocal insurance exchanges and the consolidation of the reciprocal insurance exchanges 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. OneBeacon believes that the availability of multiple channels to access its product offerings provides increased opportunities for new business.

- *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 18 Variable Interest Entities** of the accompanying consolidated financial statements. In the long term, as the reciprocals produce positive operating results and/or as third-party capital is invested, OneBeacon expects to derive value from reduced volatility in its year-to-year underwriting results. Further, OneBeacon will generate steady fee income for the various management services it provides to these associations and will receive the repayment of principal and interest on the surplus notes.

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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 premium 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. In 2008, AutoOne wrote more take-out business than all other carriers in New York combined and all of its take-out credits were sold to other carriers to reduce their assigned risk quota obligations.

For the years ended December 31, 2008, 2007 and 2006, personal lines net written premiums were as follows:

Personal lines net written premiums		**Year Ended December 31,**				
Millions		**2008**		**2007**		**2006**
Traditional excluding reciprocals	**$**	**296.4**	$	338.0	$	492.7
Reciprocals		**203.2**		221.3		93.2
Traditional personal lines		**499.6**		559.3		585.9
AutoOne		**119.9**		134.6		222.6
Other(1)		**(.8)**		(3.5)		(7.9)
Total personal lines	**$**	**618.7**	$	690.4	$	800.6

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

Run-off

Run-off primarily consists of national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual effective November 1, 2001. 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 operating results and cash flows of policies renewed from November 1, 2001 through October 31, 2003 pursuant to the Liberty Agreement were shared between Liberty Mutual and OneBeacon. 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 commercial lines was produced in the following states:

	Year Ended December 31,		
Net written premiums by state	**2008**	**2007**	**2006**
New York	**21%**	22%	27%
Massachusetts	**14**	16	17
California	**9**	8	9
New Jersey	**8**	8	8
Connecticut	**6**	6	5
Maine	**5**	6	6
Other(1)	**37**	34	28
Total	**100%**	100%	100%

(1) No individual state is greater than 3% of specialty, personal or commercial net written premiums for the years ended December 31, 2008, 2007 and 2006.

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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 3,500 select 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. OBPP 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. 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. OBGR strategically distributes its products through agents and brokers. EBI, a recently acquired MGA, has locations in New York City and California.

Commercial lines products are available in select territories throughout the United States, whereas personal lines are exclusively available in the eight Northeastern states. The majority of OneBeacon s commercial and personal lines products are distributed through select independent insurance agents. 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 production including facilitating the cross-selling of specialty, commercial and personal lines products.

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 has used tiered rating plans since 2003 in both its commercial and 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.

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 national and regional property and casualty insurers. The more significant competitive factors for most insurance products OneBeacon offers are price, product terms and claims service. OneBeacon s underwriting principles and dedication to independent agency distribution are unlikely to make OneBeacon the low-cost provider in most markets. However, while it is often difficult for insurance companies to differentiate their products to consumers, OneBeacon believes that its dedication to providing superior product offerings, expertise and local talent, claims service and disciplined underwriting provide a competitive advantage over typical low-cost providers. However, as the emergence and growth of competitors that have lower cost structures, such as direct writers, continues, OneBeacon will face greater pressure on its pricing which may impact its ability to compete.

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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 specialty, commercial, personal and run-off operations. 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 cost. The metrics are designed to guard against implementation of an expense containment program 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 run-off operations were 1,600 in 2008 compared to 1,800 in 2007, an 11% reduction, in part due to the lapse of time and the nature of run-off operations. These levels of reported claims are down from 2,400 in 2006, 3,400 in 2005 and 5,900 in 2004. Total open claims for run-off operations were 4,600 at December 31, 2008 compared to 5,500 at December 31, 2007, a 16% reduction, which reflects the success of OneBeacon s focus on settling claims from its run-off operations. Total open claims for run-off operations were 7,300 in 2006, 10,200 in 2005 and 14,600 in 2004.

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.

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 V.10) 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, 2008, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2009. The program provides coverage for OneBeacon s personal and commercial property business, as well as certain acts of terrorism. Under the program, the first $150 million of losses resulting from any single catastrophe are retained and $650 million of the next $700 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).

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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, under which OneBeacon will 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 or better by A.M. Best. The program is expected to result in ceded premiums of approximately $65 million for all of 2009.

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 also purchases individual property reinsurance coverage for certain risks to reduce large loss volatility. The property-per-risk reinsurance program reinsures losses in excess of $10 million up to $100 million. Individual risk facultative reinsurance may be purchased above $100 million where OneBeacon deems it appropriate. The property-per-risk treaty also provides one limit of reinsurance protection for losses in excess of $10 million up to $100 million on an individual risk basis for terrorism losses. However, nuclear, biological, chemical and radiological terrorist attacks are not covered.

OneBeacon also maintains a casualty reinsurance program that provides protection for individual risk or catastrophe losses involving workers compensation, general liability, automobile liability or umbrella liability in excess of $6 million up to $81 million. This program provides coverage for terrorism losses but does not provide coverage for losses resulting from nuclear, biological, chemical or radiological terrorist attacks.

In addition, OneBeacon has reinsurance contracts with two reinsurance companies rated AAA (Extremely Strong , the highest of twenty-one ratings) by Standard & Poor s and A++ (Superior , the highest of fifteen ratings) by A.M. Best. One is the reinsurance cover with NICO, which entitles OneBeacon to recover up to $2.5 billion in ultimate loss and LAE incurred related primarily to claims arising from business written by OneBeacon prior to 1992 for asbestos claims and prior to 1987 for environmental claims, and certain other exposures. As of December 31, 2008, OneBeacon has ceded estimated incurred losses of approximately $2.2 billion to the NICO Cover. Net losses paid totaled $1.1 billion as of December 31, 2008, with $109 million paid in 2008. The other contract is a reinsurance cover with General Reinsurance Corporation (GRC) for up to $570 million of additional losses on all claims arising from accident years 2000 and prior (the GRC Cover). As of December 31, 2008, OneBeacon has ceded estimated incurred losses of $550 million to the GRC Cover. Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon intends to only seek reimbursement from GRC for claims which result in payment patterns similar to those supporting OneBeacon s recoverables recorded pursuant to the GRC Cover. The economic cost of not submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its own investments. This cost, if any, is expected to be small.

Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. Therefore, collectibility of balances due from reinsurers is critical to OneBeacon s financial strength. See **Note 4 Third Party Reinsurance** of the accompanying consolidated financial statements.

Terrorism

Since the terrorist attacks of September 11, 2001, OneBeacon has sought to mitigate the risk associated with any future terrorist attacks by limiting the aggregate insured value of policies in geographic areas with exposure to losses from terrorist attacks. This is accomplished by either limiting the total insured values exposed, or, where applicable, through the use of terrorism exclusions.

In December 2007, the United States government extended the Terrorism Act for seven more years until December 31, 2014. The Terrorism Act, originally enacted in 2002, established a federal backstop for commercial property and casualty losses, including workers compensation, resulting from acts of terrorism by or on behalf of any foreign person or foreign interest. As extended, the law now also covers domestic acts of terrorism. The law limits the industry s aggregate liability by requiring the federal government to share 85% of certified losses once a company meets a specific retention or deductible as determined by its prior year s direct written premiums and limits the aggregate liability to be paid by the government and industry without further action by Congress at $100 billion. In exchange for this backstop, primary insurers are required to make coverage available to commercial insureds for losses from acts of terrorism as specified in the Terrorism Act. The following types of coverage are excluded from the program: commercial automobile, burglary and theft, surety, farmowners multi-peril and all professional liability coverage except directors and officers coverage.

OneBeacon estimates its individual retention level for commercial policies subject to the Terrorism Act to be approximately $178 million in 2009. The federal government will pay 85% of covered terrorism losses that exceed OneBeacon s or the industry s retention levels in 2009, up to a total of $100 billion.

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OneBeacon s current property and casualty catastrophe reinsurance programs provide coverage for both certified and non-certified events as defined under the Terrorism Act, provided such losses are not the result of a nuclear, biological, chemical or radiological terrorist attack, or for certified acts committed by an individual or individuals acting on behalf of any foreign person or foreign interest. See **Business Reinsurance Protection and Catastrophe Management**.

OneBeacon closely monitors and manages its concentration of risk by geographic area. OneBeacon s guideline is to control its exposures so that its total maximum expected loss from a likely terrorism event within any half-mile radius in a metropolitan area or around a target risk will not exceed $200 million, or $300 million in all other areas. Reports monitoring OneBeacon s terrorism exposures are generated quarterly, and the exposure of potential new business located in areas of existing concentration or that individually present significant exposure is evaluated during the underwriting process. As a result, OneBeacon believes that it has taken appropriate actions to limit its exposure to losses from terrorist attacks and will continue to monitor its terrorism exposure in the future. Nonetheless, risks insured by us, including those covered by the Terrorism Act, remain exposed to terrorist attacks and the possibility remains that losses resulting from future terrorist attacks could prove to be material.

Loss and Loss Adjustment Expense Reserves

OneBeacon establishes loss and LAE reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. See **CRITICAL ACCOUNTING ESTIMATES** in **Management s Discussion and Analysis of Financial Condition and Results of Operations** for a full discussion regarding OneBeacon s loss reserving process.

The following information presents (1) OneBeacon s reserve development over the preceding seven years and (2) a reconciliation of reserves in accordance with accounting principles and practices prescribed or permitted by insurance authorities (Statutory basis) to such reserves determined in accordance with GAAP, each as prescribed by Securities Act Industry Guide No. 6.

Section I of the table shows the estimated liability that was recorded at the end of each of the indicated years for all current and prior accident year unpaid loss and LAE. The liability represents the estimated amount of loss and LAE for claims that were unpaid at the balance sheet date, including incurred but not reported (IBNR) reserves. In accordance with GAAP, the liability for unpaid loss and LAE is recorded in the balance sheet gross of the effects of reinsurance with an estimate of reinsurance recoverables arising from reinsurance contracts reported separately as an asset. The net balance represents the estimated amount of unpaid loss and LAE outstanding as of the balance sheet date, reduced by estimates of amounts recoverable under reinsurance contracts.

Section II shows the cumulative amount of net loss and LAE paid relating to recorded liabilities as of the end of each succeeding year.
Section III shows the re-estimated amount of the previously recorded net liability as of the end of each succeeding year. Estimates of the liability for unpaid loss and LAE are increased or decreased as payments are made and more information regarding individual claims and trends, such as overall frequency (the average number of claims submitted per policy during a given period of time) and severity (the average value of claims submitted per policy during a given period of time) patterns, becomes known. Section IV shows the cumulative net (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2008.
Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2008. Section VI shows the cumulative gross (deficiency)/redundancy representing the aggregate change in the liability from original balance sheet dates and the re-estimated liability through December 31, 2008.

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	OneBeacon Loss and LAE (2) Years Ended December 31,								
($ in millions)	**June 1, 2001(1)**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
I. Liability for unpaid losses and LAE:									
Gross balance	$ 7,011.1	$ 8,425.2	$ 7,630.5	$ 6,237.7	$ 5,465.3	$ 5,713.4	$ 5,108.2	$ 4,718.8	$ 4,504.5
Less: reins. recoverables on unpaid losses and LAE	(2,316.7)	(3,609.7)	(3,560.6)	(2,980.4)	(2,704.5)	(3,382.0)	(3,079.7)	(2,850.6)	(2,708.4)
Net balance	$ 4,694.4	$ 4,815.5	$ 4,069.9	$ 3,257.3	$ 2,760.8	$ 2,331.4	$ 2,028.5	$ 1,868.2	$ 1,796.1
II. Cumulative net amount of liability paid through:									
1 year later	1,288.1	1,891.3	1,656.6	1,463.5	1,239.3	1,004.6	772.0	700.9	
2 years later	2,661.2	3,100.5	2,834.2	2,374.6	1,926.2	1,547.8	1,227.3		
3 years later	3,715.3	4,039.6	3,598.1	2,910.0	2,356.9	1,897.6			
4 years later	4,480.6	4,634.2	4,049.5	3,236.0	2,628.8				
5 years later	4,950.8	4,980.6	4,317.8	3,447.5					
6 years later	5,233.4	5,197.1	4,493.9						
7 years later	5,415.0	5,338.5							
8 years later	5,538.3								
III. Net liability re-estimated as of:									
1 year later	4,759.0	4,872.9	4,216.7	3,357.4	2,855.8	2,354.3	1,980.2	1,806.2	
2 years later	4,899.7	5,155.0	4,337.0	3,480.5	2,858.1	2,387.2	1,932.5		
3 years later	5,348.4	5,244.0	4,453.3	3,496.3	2,945.3	2,350.7			
4 years later	5,423.0	5,327.4	4,473.6	3,620.5	2,927.8				
5 years later	5,489.2	5,348.9	4,605.5	3,621.6					
6 years later	5,499.1	5,477.5	4,609.7						
7 years later	5,613.4	5,477.6							
8 years later	5,614.5								
IV. Cumulative net (deficiency)/redundancy	$ (920.1)	$ (662.1)	$ (539.8)	$ (364.3)	$ (167.0)	$ (19.3)	$ 96.0	$ 62.0	
Percent (deficient)/redundant	(19.6)%	(13.8)%	(13.3)%	(11.2)%	(6.0)%	(.8)%	4.7%	3.3%	
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III. above):									
Gross re-estimated liability	$ 9,891.6	$ 10,106.0	$ 9,184.2	$ 7,511.2	$ 6,444.6	$ 5,750.0	$ 4,999.6	$ 4,647.6	
Less: gross re-estimated reinsurance recoverable	(4,277.1)	(4,628.4)	(4,574.5)	(3,889.6)	(3,516.8)	(3,399.3)	(3,067.1)	(2,841.4)	
Net re-estimated liability	$ 5,614.5	$ 5,477.6	$ 4,609.7	$ 3,621.6	$ 2,927.8	$ 2,350.7	$ 1,932.5	$ 1,806.2	
VI. Cumulative gross (deficiency)/redundancy	$ (2,880.5)	$ (1,680.8)	$ (1,553.7)	$ (1,273.5)	$ (979.3)	$ (36.6)	$ 108.6	$ 71.2	
Percent (deficient)/redundant	(41.1)%	(20.0)%	(20.4)%	(20.4)%	(17.9)%	(.6)%	2.1%	1.5%	

(1) OneBeacon became a wholly-owned subsidiary of White Mountains on June 1, 2001.

(2) Amounts reported in the table do not include adjustments for purchase accounting related to the acquisition of OneBeacon.

The following table reconciles loss and LAE reserves determined on a Statutory basis to loss and LAE reserves determined in accordance with GAAP at December 31, as follows:

Millions	Year Ended December 31, 2008	2007	2006
Statutory reserves	**$ 3,465.0**	$ 3,564.5	$ 3,863.9
Reinsurance recoverable on unpaid losses and LAE(1)	**1,073.9**	1,190.9	1,280.5
Other(2)	**(34.4)**	(36.6)	(36.2)
Reserves before purchase accounting	**4,504.5**	4,718.8	5,108.2
Purchase accounting	**(210.5)**	(238.5)	(270.5)
GAAP reserves	**$ 4,294.0**	$ 4,480.3	$ 4,837.7

(1) Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under statutory accounting.

(2) Represents long-term workers compensation loss and LAE reserve discount recorded in excess of statutorily defined discount.

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OneBeacon s Intermediate Holding Companies

OneBeacon s intermediate holding companies include OneBeacon U.S. Enterprises Holdings, Inc. (OBEH), formerly Fund American Enterprises Holdings, Inc., and OneBeacon U.S. Holdings, Inc. (OBH), formerly Fund American Companies, Inc., both U.S.-domiciled companies, as well as various intermediate holding companies domiciled in the United States, Gibraltar, Luxembourg and Bermuda.

In May 2003, OBH issued $700 million face value of senior unsecured notes through a public offering, at an issue price of 99.7% (the OBH Senior Notes). The OBH Senior Notes bear an annual interest rate of 5.875%, payable semi-annually in arrears on May 15 and November 15, until maturity in May 2013. During the third quarter of 2008, OneBeacon repurchased $24 million face value of its outstanding OBH Senior Notes for $22 million.

White Mountains provides an irrevocable and unconditional guarantee as to the payment of principal and interest on the OBH Senior Notes. In consideration of this guarantee OneBeacon pays White Mountains a guarantee fee equal to 25 basis points per annum on the outstanding principal amount of the OBH Senior Notes. If White Mountains voting interest in OneBeacon Ltd. s common shares ceases to represent more than 50% of all of OneBeacon Ltd. s voting securities, OneBeacon Ltd. will seek to redeem, exchange or otherwise modify the OBH Senior Notes in order to fully and permanently eliminate White Mountains obligations under the guarantee. In the event that White Mountains guarantee is not eliminated, the guarantee fee will increase over time up to a maximum of 450 basis points.

As part of the financing for White Mountains acquisition of OneBeacon in June 2001, Berkshire Hathaway Inc. (Berkshire) invested a total of $300 million in cash, of which (1) $225 million was for the purchase of cumulative non-voting preferred stock of OBH (the Berkshire Preferred Stock), which had a $300 million redemption value; and (2) $75 million was for the purchase of warrants to acquire 1,724,200 common shares of the Company. During 2004, Berkshire exercised its warrants for $294 million in cash. During the fourth quarter of 2008, White Mountains executed an exchange transaction with Berkshire to transfer certain run-off businesses and a substantial amount of cash to Berkshire in exchange for substantially all of the common shares of White Mountains owned by Berkshire (See **Other Operations Berkshire Exchange).**

Also as part of the financing of the acquisition of OneBeacon, Zenith Insurance Company purchased $20 million in cumulative non-voting preferred stock of OBEH (the Zenith Preferred Stock).

In connection with the OneBeacon Offering, OneBeacon created two irrevocable grantor trusts and funded them with assets sufficient to provide for the remaining dividend and redemption payments for the $20 million Zenith Preferred Stock and the $300 million Berkshire Preferred Stock. Assets held in these trusts were used to redeem the Zenith Preferred Stock in June 2007 and the Berkshire Preferred Stock in May 2008.

WHITE MOUNTAINS RE

White Mountains Re is a global multi-line reinsurance organization that provides reinsurance for property, casualty, accident & health, agriculture, aviation and space, and certain other exposures on a worldwide basis through its subsidiaries, WMRe America, WMRe Sirius and WMRe Bermuda. WMRe America is a multi-line property and casualty reinsurer that provides reinsurance primarily in the United States, Canada, Continental Europe, Latin America, and the Caribbean. WMRe Sirius, which is the largest reinsurance company domiciled in Scandinavia based on gross written premiums, is a multi-line property and casualty reinsurer that provides reinsurance primarily in Europe, North America and Asia. In 2007, White Mountains Re increased the capital of WMRe Bermuda, its class 3 Bermuda domiciled reinsurance company, and in 2008 WMRe Bermuda commenced underwriting reinsurance.

White Mountains Re has offices in Belgium, Bermuda, Connecticut, Copenhagen, Hamburg, London, Miami, New York, Singapore, Stockholm, Toronto and Zurich. At December 31, 2008 and 2007, White Mountains Re had $6.1 billion and $7.4 billion of total assets and $1.5 billion and $1.9 billion of shareholder s equity. White Mountains Re wrote approximately $931 million and $1,096 million in net written premiums in 2008 and 2007.

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The following table presents the financial strength ratings assigned to White Mountains Re s principal reinsurance operating subsidiaries:

	A.M. Best(1)	Standard & Poor s(2)	Moody s(3)	Fitch(4)
WMRe America				
Rating	A- (Excellent)	A- (Strong)	A3 (Good)	A- (Strong)
Outlook	Stable	Stable	Stable	Stable
WMRe Sirius				
Rating	A (Excellent)	A- (Strong)	A3 (Good)	A- (Strong)
Outlook	Stable	Stable	Stable	Stable
WMRe Bermuda				
Rating	A- (Excellent)	A- (Strong)	No Rating	A (Strong)
Outlook	Stable	Stable	N/A	Stable

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

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

(3) A3 is the seventh highest of twenty-one financial strength ratings assigned by Moody s.

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

White Mountains Re acquired Sirius Insurance Holdings Sweden AB and its subsidiaries from ABB Ltd. on April 16, 2004 for SEK 3.27 billion (approximately $427.5 million). The principal companies acquired were WMRe Sirius, Sirius America Insurance Company (Sirius America), which was subsequently sold in 2006, and Scandinavian Re, a reinsurance company that has been in run-off since 2002.

Since 2001 White Mountains Re has had a dedicated group of professionals who have managed several acquisitions of run-off interests in other insurance and reinsurance organizations (See **White Mountains Re Solutions**). Other recent corporate acquisitions and sales by White Mountains Re include the following:

- On January 7, 2008, White Mountains Re acquired Helicon Re Holdings, Ltd. and its wholly-owned subsidiary, Helicon Reinsurance Company, Ltd. (Helicon), a Bermuda-domiciled reinsurance company, for approximately $150 million in cash. White Mountains Re did not acquire any infrastructure or employees.

- On August 2, 2006, White Mountains Re sold Sirius America to an investor group led by Lightyear Capital for $139 million in cash. As part of the transaction, White Mountains acquired an equity interest of approximately 18% in the acquiring entity (Delos) and accounts for such interest under the equity method within its Other Operations segment.

Reinsurance Overview

Reinsurance is an arrangement in which a reinsurance company (the reinsurer) agrees to indemnify an insurance company (the ceding company for all or a portion of the insurance risks underwritten by the ceding company under one or more insurance policies. Reinsurance can benefit a ceding company in a number of ways, including reducing exposure on individual risks, providing catastrophe protections from large or multiple losses, and assisting in maintaining acceptable capital levels as well as financial and operating leverage ratios. Reinsurance can also provide a ceding company with additional underwriting capacity by permitting it to accept larger risks and underwrite a greater number of risks without a corresponding increase in its capital. Reinsurers may also purchase reinsurance, known as retrocessional reinsurance, to cover their own risks assumed from ceding companies. Reinsurance companies often enter into retrocessional agreements for many of the same reasons that ceding companies enter into reinsurance agreements.

Reinsurance is generally written on a treaty or facultative basis. Treaty reinsurance is an agreement whereby the reinsurer assumes a specified portion or category of risk under all qualifying policies issued by the ceding company during the term of the agreement, usually one year. When underwriting treaty reinsurance, the reinsurer does not evaluate each individual risk and generally accepts the original underwriting decisions made by the ceding company. Treaty reinsurance is typically written on either a proportional or excess of loss basis. A proportional reinsurance treaty is an arrangement whereby a reinsurer assumes a predetermined proportional share of the premiums and losses generated on specified business. An excess of loss treaty is an arrangement whereby a reinsurer assumes losses that exceed a specific retention of loss by the ceding company. Facultative reinsurance, on the other hand, is underwritten on a risk-by-risk basis, which allows the reinsurer to determine pricing for each exposure.

White Mountains Re writes both treaty and facultative reinsurance, as well as primary direct business. The majority of White Mountains Re premiums are derived from excess of loss and proportional reinsurance contracts, which in 2008 amounted to 67% and 24%, respectively, of its total net written premiums, while primary direct business represented 9% of total net written premiums.

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A significant period of time normally elapses between the receipt of reinsurance premiums and the payment of reinsurance claims. While premiums are generally paid to the reinsurer upon inception of coverage, the claims process is delayed and generally begins upon the occurrence of an event causing an insured loss followed by: (1) the reporting of the loss by the insured to its broker or agent; (2) the reporting by the broker or agent to the ceding company; (3) the reporting by the ceding company to its reinsurance intermediary or agent; (4) the reporting by the reinsurance intermediary or agent to the reinsurer; (5) the ceding company s adjustment and payment of the loss; and (6) the payment to the ceding company by the reinsurer. During this time, reinsurers generate investment income on premium receipts, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities. The period of time between the receipt of premiums and the payment of claims is typically longer for a reinsurer than for a primary insurer.

Classes of Business

The following table shows White Mountains Re s net written premiums by class of business for the years ended December 31, 2008, 2007 and 2006:

Business class	**Year Ended December 31,**		
Millions	**2008**	**2007**	**2006**