

WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-K
March 07, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2005

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.)

Harborside Financial Center, Plaza 5,

Jersey City, New Jersey

(Address of principal executive offices)

07311-1114

(Zip Code)

Registrant's telephone number, including area code: **(201) 631-3300**

Edgar Filing: WHITE MOUNTAINS INSURANCE GROUP LTD - Form 10-K

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 Act. Yes No

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 No

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 No

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.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated Filer Non-accelerated filer

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

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, 2005, was \$3,785,698,416.

As of March 3, 2006, 10,780,053 common shares, par value of \$1.00 per share, were outstanding.

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 25, 2006 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.

TABLE OF CONTENTS

PART I

<u>ITEM 1.</u>	<u>Business</u>	2
	<u>General</u>	2
	<u>OneBeacon</u>	3
	<u>White Mountains Re</u>	15
	<u>Esurance</u>	24
	<u>Other Operations</u>	27
	<u>Investments</u>	28
	<u>Regulation</u>	30
	<u>Ratings</u>	32
	<u>Employees</u>	33
	<u>Available Information</u>	33
<u>ITEM 1A.</u>	<u>Risk Factors</u>	34
<u>ITEM 1B.</u>	<u>Unresolved Staff Comments</u>	38
<u>ITEM 2.</u>	<u>Properties</u>	38
<u>ITEM 3.</u>	<u>Legal Proceedings</u>	38
<u>ITEM 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	39
<u>Executive Officers of the Registrant and its Subsidiaries</u>		40

PART II

<u>ITEM 5.</u>	<u>Market for the Company's Common Equity, Related Shareholder Matters and Issuer Purchase of Equity Securities</u>	41
<u>ITEM 6.</u>	<u>Selected Financial Data</u>	42
<u>ITEM 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	43
	<u>Non-GAAP Financial Measures</u>	56
	<u>Liquidity and Capital Resources</u>	56
	<u>Related Party Transactions</u>	64
	<u>Critical Accounting Estimates</u>	65
	<u>Forward-Looking Statements</u>	77
<u>ITEM 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	77
<u>ITEM 8.</u>	<u>Financial Statements and Supplementary Data</u>	79
<u>ITEM 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	79
<u>ITEM 9A.</u>	<u>Controls and Procedures</u>	79
<u>ITEM 9B.</u>	<u>Other Information</u>	79

PART III

<u>ITEM 10.</u>	<u>Directors and Executive Officers of the Registrant</u>	80
<u>ITEM 11.</u>	<u>Executive Compensation</u>	80
<u>ITEM 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	80
<u>ITEM 13.</u>	<u>Certain Relationships and Related Transactions</u>	80
<u>ITEM 14.</u>	<u>Principal Accountant Fees and Services</u>	80

PART IV

<u>ITEM 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	81
-----------------	---	----

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 subsidiaries and affiliates in the businesses of property and casualty insurance and reinsurance. 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 Harborside Financial Center, Plaza 5, Jersey City, New Jersey, 07311-1114 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 the OneBeacon Insurance Group LLC family of companies (collectively OneBeacon), which are U.S.-based property and casualty insurance writers, substantially all of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, personal and commercial products and services sold primarily through select independent agents. OneBeacon was acquired by White Mountains from Aviva plc (Aviva, formerly CGNU) on June 1, 2001 (the OneBeacon Acquisition).

The White Mountains Re segment consists of White Mountains Re Group, Ltd. and its subsidiaries. White Mountains Re offers lead reinsurance capacity for property, casualty, accident & health, aviation and marine exposures on a worldwide basis through its reinsurance subsidiaries, Folksamerica Reinsurance Company (Folksamerica Re, together with its parent, Folksamerica Holding Company, Folksamerica), which has been a wholly-owned subsidiary of White Mountains since 1998, and Sirius International Insurance Corporation (Sirius International). On April 16, 2004, White Mountains acquired Sirius Insurance Holdings Sweden AB and its subsidiaries (Sirius) from ABB Ltd. (the Sirius Acquisition). The principal companies acquired were Sirius International, Sirius America Insurance Company (Sirius America), which provides primary insurance programs in the United States, and Scandinavian Reinsurance Company Ltd. (Scandinavian Re), a reinsurance company that has been in run-off since 2002. White Mountains Re also provides reinsurance advisory services, specializing in international property and marine excess reinsurance, through White Mountains Underwriting Limited (domiciled in Ireland and formed in 2001) and White Mountains Underwriting (Bermuda) Limited, formed in 2003 (collectively, WMU).

The Esurance segment consists of Esurance Holdings, Inc. and its subsidiaries (collectively, Esurance). Esurance, which has been a unit of White Mountains since October 2000, markets personal auto insurance directly to customers online and through select online agents.

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), as well as the International American Group, Inc. (the International American Group). The International American Group, which was acquired by White Mountains in 1999, consists of American Centennial Insurance Company (American Centennial) and British Insurance Company of Cayman (British Insurance Company), both of which are in run-off. The Other Operations segment also includes White Mountains investments in warrants to purchase common shares of both Montpelier Re Holdings, Ltd. (Montpelier) and Symetra Financial Corporation (Symetra).

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, which is headquartered in Boston, Massachusetts, has been a part of White Mountains since June 2001. OneBeacon is one of the oldest property and casualty insurers in the United States, tracing its roots to 1831 and the Potomac Fire Insurance Company. OneBeacon's legacy includes being among the first to issue automobile policies, honoring claims arising from the great San Francisco earthquake and the sinking of the Titanic, as well as insuring several U.S. presidents.

At December 31, 2005 and 2004, OneBeacon had \$9.7 billion and \$10.0 billion of total assets, respectively, and shareholder's equity of \$2.0 billion and \$2.3 billion, respectively. OneBeacon's principal operating insurance subsidiaries are rated A (Excellent, the third highest of fifteen ratings) by A.M. Best and A (Strong, the sixth highest of twenty-one ratings) by Standard & Poor's, rating agencies that specialize in the insurance and reinsurance industry.

Property and Casualty Insurance Overview

Generally, property and casualty insurance companies write insurance policies in exchange for premiums paid by its 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.

Insurance companies derive substantially all of their revenues from earned premiums, investment income and net gains and losses from sales of 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. Net realized investment gains and losses result from sales of securities from the insurance companies' investment portfolios.

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 compensation and benefits for professional and clerical staff.

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 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 provides specialty lines insurance products and a variety of segmented personal lines insurance products for individuals and commercial lines insurance products for businesses.

OneBeacon has built specialty businesses by providing customized coverages to certain niche markets. These specialty businesses are not subject to extreme competitive market conditions and are distinct in their product design. Each specialty business has its own operations and distribution channels that target specific customer groups. OneBeacon's specialty lines insurance products include the following:

Assigned risk services: OneBeacon offers Limited Assigned Distribution (LAD) and Commercial Limited Assigned Distribution (CLAD) services to insurance companies required to accept personal and/or commercial automobile assignments through assigned risk plans in ten states. OneBeacon writes the majority of its LAD and CLAD business through the New York Automobile Insurance Plan (NYAIP) and the New Jersey Personal Automobile Insurance Plan (NJPAIP). During 2005, OneBeacon also began to write such business through other state programs, including California, Connecticut, Delaware, Maine, Pennsylvania, Texas and Vermont, as well as the District of Columbia.

Medical errors and omissions: provides coverage for claims arising from direct patient treatment, such as making diagnoses, rendering opinions or providing advice or referral to another physician. Medical errors and omissions also provides coverage for professional committee activities as a member of an accredited hospital staff or any professional medical association or committee. These coverages are generally offered to mid-sized hospitals and/or managed care organizations and to individual physicians, but only through selected programs.

Ocean marine: provides coverage for losses to an insured's vessel, cargo and/or its marine property as a result of collision, fire, piracy, windstorm or other perils. Ocean marine coverages include cargo, hull, protection and indemnity, primary and excess liability, marina package, comprehensive marina liability package and yacht products.

Agricultural and rural marketplace products: policies providing property and liability coverages for dairy farms, equine farms, farm equipment dealers, orchard and other commercial farms. Also provides liability and umbrella coverages for farm owners as a package and property, liability and umbrella coverages for select commercial businesses, such as feed stores, seed merchants, fruit and vegetable packers and shippers, and others actively involved

in support of farming operations. Coverage does not include multi-peril crop insurance or crop hail insurance.

Excess and surplus lines property: excess property covers the insured against certain damages over and above those covered by primary policies or a large self-insured retention. Specialized insurance coverage is available on a surplus lines basis in instances where such coverage is unavailable from insurers licensed (admitted) within a particular state. OneBeacon entered the excess and surplus lines property business in 2004.

Tuition reimbursement: covers tuition payments due to insured schools and colleges when a student is unable to complete a school term as a result of a covered reason for withdrawal (medical and in certain instances voluntary withdrawal and involuntary dismissal).

Community banking and lawyers professional liability: provides professional liability coverages for community banks with assets of \$3 billion or less and law firms employing fewer than 150 attorneys. OneBeacon also offers its community banking customers its commercial package product, thereby providing comprehensive insurance solutions.

OneBeacon's personal lines coverages include homeowners insurance, segmented private passenger automobile and package policies sold through select independent agents. In addition, OneBeacon provides management services for a fee to reciprocal exchanges. Since OneBeacon's acquisition of the renewal rights on Atlantic Mutual's commercial lines business in 2004 (see page 8), OneBeacon's focus on commercial lines has been to write property, liability, automobile and other related lines for small and mid-sized businesses for specific industry segments. While its personal and commercial lines are subject to more competitive pressures than its specialty lines, OneBeacon believes that it has created certain niches in its personal and commercial businesses through proper segmentation in the design and rating of its products. OneBeacon's objective is to underwrite only profitable business without regard to market share or premium growth. OneBeacon's personal and commercial lines insurance products include the following:

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.

Commercial property: covers losses to a business' premises, inventory and equipment as a result of weather, fire, theft and other causes.

General liability: covers businesses for any liability resulting from bodily injury and property damage arising from its general business operations, accidents on its premises and the products it manufactures or sells.

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.

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.

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 insurance and commercial property insurance.

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.

Net written premiums in OneBeacon's other lines of business are primarily from reciprocal insurance exchanges administered by OneBeacon and premiums written during 2003 under the Liberty Agreement (as defined below).

On November 1, 2001, OneBeacon transferred its regional agency business, agents and operations in 42 states and the District of Columbia to Liberty Mutual Insurance Group (Liberty Mutual) pursuant to a renewal rights agreement (the Liberty Agreement). The renewal rights under the Liberty Agreement expired on October 31, 2003. As a result, OneBeacon did not write any new premiums in 2005 or 2004 under the Liberty Agreement, but recorded earned premium in 2004 from policies written under the Liberty Agreement in 2003.

Edgar Filing: WHITE MOUNTAINS INSURANCE GROUP LTD - Form 10-K

For the twelve months ended December 31, 2005, 2004 and 2003, OneBeacon's net written premiums by line of business were as follows:

Net written premiums by line of business (\$ in millions)	Year Ended December 31,		
	2005	2004	2003
Specialty	\$ 840.2	\$ 848.5	\$ 733.7
Personal	618.7	724.7	676.8
Commercial	610.9	807.1	426.7
Other lines	51.3	78.8	135.3
Total	\$ 2,121.1	\$ 2,459.1	\$ 1,972.5

Specialty Lines

OneBeacon's specialty businesses include AutoOne, medical errors and omissions (offered through OneBeacon Professional Partners, OBPP), ocean marine (offered through International Marine Underwriters, IMU), agricultural (Agri), excess and surplus lines property business (offered through OneBeacon Specialty Property, OBSP), tuition reimbursement (offered through A.W.G. Dewar, Inc., Dewar) and other specialty products. OneBeacon offered additional rural and farm related products through National Farmers Union Property and Casualty Company (NFU) until its sale on September 30, 2005.

For the twelve months ended December 31, 2005, 2004 and 2003, OneBeacon's specialty lines net written premiums were as follows:

Specialty lines net written premiums (\$ in millions)	Year Ended December 31,		
	2005	2004	2003
AutoOne	\$ 248.0	\$ 263.1	\$ 233.8
OBPP	149.5	119.5	68.7
IMU	133.6	136.5	125.7
NFU (sold on September 30, 2005)	132.5	178.5	169.0
Agri	84.0	83.6	84.0
Dewar	45.6	44.6	43.4
OBSP	43.6	19.2	
Other	3.4	3.5	9.1
Total specialty lines	\$		