WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-K
February 28, 2011
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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, 2010

OR

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

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

None

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes 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. o

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

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

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

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the Registrant as of June 30, 2010, was $2,418,868,195.

As of February 24, 2011, 8,025,200 common shares, par value of $1.00 per share, were outstanding (which includes 73,250 restricted common shares that were not vested at such date).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement to be filed with the Securities and Exchange Commission (SEC) pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act), relating to the Registrant s Annual General Meeting of Members scheduled to be held May 26, 2011 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. Within this report, the term White Mountains is used to refer to one or more entities within the consolidated organization, as the context requires. The Company s headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains reportable segments are OneBeacon, White Mountains Re, Esurance and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. (OneBeacon Ltd.), an exempted Bermuda limited liability company that owns a family of U.S. based property and casualty insurance companies (collectively OneBeacon), most of which operate in a multi-company pool. OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products through independent agencies, regional and national brokers, wholesalers and managing general agencies. 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, 2010 White Mountains owned 76.0% 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 provides insurance and reinsurance products for property, accident & health, aviation and space, trade credit, marine, casualty, agriculture and certain other exposures on a worldwide basis through its subsidiaries, Sirius International Insurance Corporation (WMRe Sirius) and White Mountains Reinsurance Company of America (WMRe America , formerly known as Folksamerica Reinsurance Company). White Mountains Re also specializes in the acquisition and management of run-off insurance and reinsurance companies both in the United States and internationally through its White Mountains Re Solutions division. White Mountains Re also includes Scandinavian Reinsurance Company, Ltd. (Scandinavian Re), which is in run-off, and Central National Insurance Company of Omaha (Central National), which was acquired during the first quarter of 2010 and is in run-off.

The Esurance segment consists of Esurance Holdings, Inc. and its subsidiaries and Answer Financial Inc. and its subsidiaries (AFI) (collectively, Esurance). Esurance writes personal auto insurance directly to customers in 30 states through its website and over the phone and also sells other lines of personal insurance for unaffiliated insurance companies. Esurance also writes personal auto policies through select online agents and provides other insurance products through partnerships with industry leading online providers. Esurance also earns commissions and fees by referring to unaffiliated insurance companies those shoppers that it cannot underwrite because of pricing or underwriting eligibility. AFI, which White Mountains acquired during 2008, is one of the largest independent personal insurance agencies in the United States. AFI sells insurance online and through call centers for both Esurance and unaffiliated companies utilizing a comparison quoting platform.

The Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC (WM Advisors), White Mountains investment in common shares and warrants to purchase common shares of Symetra Financial Corporation (Symetra), the consolidated results of the Tuckerman Capital, LP fund (Tuckerman Fund I), White Mountains variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. (WM Life Re), which is in run-off, as well as various other entities not included in other segments. The Other Operations segment also included White Mountains investment in Lightyear Delos Acquisition Corporation (Delos) prior to its disposition in December 2010, its weather risk management business prior to its disposition in August 2009 and the International American Group, Inc. (the International American Group) prior to its disposition in October 2008.

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White Mountains Operating Principles

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

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

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

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

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

ONEBEACON

OneBeacon, whose U.S. corporate headquarters are in Minnetonka, Minnesota, is a specialty property and casualty insurance writer that offers a wide range of insurance products through independent agencies, regional and national brokers, wholesalers and managing general agencies. As a specialty company, OneBeacon is guided by a focus on certain customer groups and/or geographic territories where it believes its targeted products and expertise deliver a competitive advantage. OneBeacon believes specialization will result in superior returns as compared to a more generalist underwriting approach and that its knowledge regarding its targeted industries, classes and risk characteristics provides it with a competitive edge for its terms and conditions on individual accounts. OneBeacon s products cover professional liability, marine, collector cars and boats, property and inland marine, excess property, accident and health, technology, public entities, energy, entertainment, sports and leisure, tuition reimbursement and excess and surplus lines.

At December 31, 2010 and 2009, OneBeacon had $6.1 billion and $7.5 billion of total assets and $1.2 billion and $1.4 billion of common shareholders equity, respectively. At December 31, 2010 and 2009, White Mountains reported $295 million and $351 million of noncontrolling interest related to its ownership in OneBeacon. OneBeacon wrote $1.2 billion and $1.9 billion in net written premiums in 2010 and 2009, respectively.

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	Stable	Negative	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 seventh highest of twenty-one financial strength ratings assigned by Standard & Poor s.

(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 personal property, 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.

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

Insurance companies incur a significant amount of their total expenses from policyholder losses, which are commonly referred to as claims. In settling policyholder losses, various loss adjustment expenses (LAE) are incurred such as insurance adjusters fees and litigation expenses. In addition, insurance companies incur policy acquisition expenses, such as commissions paid to agents and premium taxes, and other expenses related to the underwriting process, including their employees compensation and benefits. The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company s combined ratio under accounting principles generally accepted in the United States (GAAP) is calculated by adding the ratio of incurred loss and LAE to earned premiums (the loss and LAE ratio) and the ratio of policy acquisition and other underwriting expenses to earned premiums (the expense ratio). A combined ratio under 100% indicates that an insurance company is generating an underwriting profit. However, when considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable.

Lines of Business

Historically, OneBeacon offered a range of specialty, commercial and personal products. However, as a result of recent transactions, OneBeacon is now focused exclusively on specialty business. In addition, the transactions freed up significant capital, increased OneBeacon s financial flexibility and substantially reduced its catastrophe exposure. On December 3, 2009, OneBeacon sold the renewal rights to its non-specialty commercial lines business to the Hanover Insurance Group Ltd. (The Hanover), beginning with January 1, 2010 effective dates (the Commercial Lines Transaction) and on July 1, 2010, OneBeacon completed the sale of its traditional personal lines business to Tower Group Inc. (Tower) (the Personal Lines Transaction).

OneBeacon s net written premiums for the years ended December 31, 2010, 2009 and 2008 consisted of on-going specialty insurance operations and other insurance operations, which are primarily businesses that are now in run-off or have been sold as a result of the Commercial Lines Transaction and the Personal Lines Transaction.

Net written premiums by line of business		**Year Ended December 31,**				
Millions		**2010**		**2009**		**2008**
Specialty insurance operations	**$**	**988.0**	$	946.2	$	836.9
Other insurance operations		**248.3**		960.5		1,126.3
Total	**$**	**1,236.3**	$	1,906.7	$	1,963.2

Specialty Insurance Operations

OneBeacon s specialty insurance operations include a collection of niche businesses that focus on solving the unique needs of particular customer or industry groups on a national scale. OneBeacon provides distinct products and offers tailored coverages and services, managed by seasoned teams of market specialists. Some of these businesses maintain stand-alone operations and distribution channels targeting their specific customer groups. The majority of these businesses are focused on smaller property-casualty insurance segments where particular expertise and relationships with similarly focused distribution partners have resulted historically in strong operating results. These businesses maintain their competitive advantage through a deep knowledge of their respective customers and markets. OneBeacon has added, and expects to continue to add, new specialty businesses both organically and through acquisition, guided by its focus on profitable growth while prudently managing underwriting risk. OneBeacon s specialty insurance businesses are described below.

Collector Cars and Boats

Through its exclusive partnership with the Hagerty Insurance Agency (Hagerty), OneBeacon offers tailored coverages for collectible vehicles and wooden boats, automotive museums and restoration shops. Notable features include agreed value for the insured vehicle or boat, flexible usage, and overseas shipping/foreign touring coverage all supported by in-house claims expertise. OneBeacon s relationship with Hagerty has an initial term of five years and will be up for renewal in the second quarter of 2013.

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A.W.G. Dewar (Dewar)

Dewar has been 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. OneBeacon has an ownership interest of approximately 80% in the Dewar agency.

OneBeacon Entertainment (OBE)

OBE provides specialized commercial insurance products, including professional liability coverages, for the entertainment, sports and leisure industries. OBE encompasses Entertainment Brokers International Insurance Services (EBI), which OneBeacon acquired in July 2008 and continues to operate as a managing agency offering additional specialized coverages through a network of independent agents and brokers.

International Marine Underwriters (IMU)

IMU, which traces its roots to the early 1900s, offers a full range of ocean marine insurance products including, but not limited to, commercial hull and marine liabilities at both the primary and excess levels; ocean and air cargo with coverage extensions such as inland transit, warehousing, and processing; yachts; and several marine package products with comprehensive property, auto, and liability coverage.

OneBeacon Technology Insurance (OBTI)

OBTI offers worldwide insurance solutions for the technology sector. OBTI s InfoTech coverages feature professional liability, data privacy, products liability and property and business income targeting the software, hardware manufacturing, telecommunications service industries and solar energy. OBTI s MedTech offerings include products and general liability as well as human clinical trials, property and business income well suited for manufacturers of diagnostic and therapeutic medical devices, veterinary products and biologic devices. OBTI s team has an expert staff in both risk control and technology claims handling.

Specialty Accident and Health (OB A&H)

OB A&H offers accident and health insurance principally through four segments: commercial (midsized organizations to Fortune 1000 companies); transportation (trucking and courier); programs (associations and other affinity groups); and services (bundled and unbundled). OB A&H s products include accidental death and dismemberment, occupational accident, non-truckers liability, vehicle physical damage and other accident and health coverages. OB A&H also manages OneBeacon Services, which provides employers and affinity groups with access to a suite of services including a discounted prescription drug program, identity theft resolution services and travel assistance services.

OneBeacon Government Risks (OBGR)

OBGR provides protection for midsized municipalities and counties, special districts including water and sanitation, non-rail transit authorities and other publicly funded agencies. Coverages include property, casualty and professional liability comprised of law enforcement, public officials and employment practices liability offered on a fully insured, deductible, self-insured retention or assumed reinsurance basis.

OneBeacon Energy Group (OBEG)

OBEG focuses on mid-market upstream and midstream conventional energy business, alternative and renewable energy producers, alternative fuel producers and related service and manufacturing enterprises. OBEG offers a full array of property, inland marine and casualty insurance, including property damage, boiler and machinery breakdown, general liability, auto liability and umbrella liability. OBEG continues to develop and expand product offerings to serve its customers needs. OBEG does not offer offshore energy products.

OneBeacon Professional Insurance (OBPI)

OBPI specializes in professional liability solutions for targeted industries including hospitals, long-term care facilities, medical facilities, physician groups, media organizations, lawyers, real estate professionals, design professionals, financial services and technology providers. Additionally, OBPI provides employment practices liability insurance, management liability and tailored products for complex organizations including health care provider excess insurance and HMO reinsurance. General liability, property and workers compensation coverages are also available for financial institutions. OBPI s policies are primarily issued on a claims made basis, which covers losses reported during the time period when a liability policy is in effect, regardless of when the event causing the claim actually occurred.

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OneBeacon Property and Inland Marine (PIM)

PIM provides monoline property and inland marine products. The business property focus is on real estate, health care, education, aviation and municipality sectors for property coverages, while inland marine targets the construction, transportation and fine arts segments. PIM delivers creative and tailored solutions that fit its customers unique needs through broad coverage forms, specialized risk control and claims-handling capabilities.

OneBeacon Specialty Property (OBSP)

OBSP provides excess property and inland marine coverages that augment primary policies or self-insured retentions. Target classes of business include apartments and condominiums, commercial real estate, small-to-medium manufacturing, retail/wholesale, education and public entities. OBSP solutions are provided primarily through surplus lines wholesalers.

OneBeacon Excess and Surplus (OBES)

OneBeacon s newest business, OBES was established in July 2010 both to support its current businesses and to write selectively in the excess and surplus market. OBES includes OneBeacon Environmental, which offers specialized environmental insurance products designed to address a broad range of exposures faced by businesses. Capabilities include commercial general liability, contractors environmental liability, professional liability, environmental premises liability, products pollution liability and follow-form excess.

Other Insurance Operations

OneBeacon s other insurance operations includes AutoOne, which offers products and services to the assigned risk market. 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.

OneBeacon s other insurance operations also includes run-off business, which consists primarily of non-specialty commercial lines business included in the Commercial Lines Transaction, as well as national accounts, certain specialty programs and regional agency business transferred to Liberty Mutual Insurance Group effective November 1, 2001. Additionally, OneBeacon s other insurance operations includes the traditional personal lines business sold as part of the Personal Lines Transaction and certain purchase accounting adjustments relating to White Mountains acquisition of OneBeacon.

The Commercial Lines Transaction included small commercial accounts and the non-specialty portion of the middle-market business, beginning with January 1, 2010 effective dates. OneBeacon continues to manage claims from its non-specialty commercial lines policies written prior to the Commercial Lines Transaction. Through June 30, 2010, OneBeacon also managed claims from business fronted by OneBeacon and reinsured to The Hanover. OneBeacon continues to provide claims system access and first notice of loss service to The Hanover. The Hanover reimburses OneBeacon for its expenses incurred to provide the claims administration services.

The Personal Lines Transaction included the execution of reinsurance agreements with certain subsidiaries of OneBeacon pursuant to which OneBeacon cedes, on a 100% quota share basis, traditional personal lines business not directly written by companies included in the sale and assumes, on a 100% quota share basis, non-traditional personal lines business written directly by York Insurance Company of Maine, one of the insurance companies sold. The non-traditional personal lines business assumed back from Tower is reported within specialty insurance operations. OneBeacon also entered into a Transition Services Agreement (TSA), pursuant to which it provides certain services to Tower during the three-year term of the TSA. Tower reimburses OneBeacon for its expenses incurred to provide these services. Reimbursement for these services is netted against the expense incurred.

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Geographic Concentration

Substantially all of OneBeacon s net written premiums are derived from business produced in the United States. Business from specialty insurance operations was produced in the following states:

Specialty insurance operations	Year Ended December 31,		
Net written premiums by state	2010	2009	2008
California	**13%**	13%	12%
New York	**9**	9	9
Texas	**7**	7	7
Florida	**6**	6	6
Massachusetts	**5**	6	5
New Jersey	**4**	4	4
Other(1)	**56**	55	57
Total	**100%**	100%	100%

(1) No individual state is greater than 4% of specialty net written premiums for the years ended December 31, 2010, 2009 and 2008.

Marketing and Distribution

OneBeacon offers its products through a network of select independent agents, regional and national brokers and wholesalers. Overall, OneBeacon has approximately 2,900 distribution relationships across the country. 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 protects the integrity of its franchise value by selectively appointing distribution partners that demonstrate business and industry knowledge and geographic profiles that align with its target markets and specialized capabilities. OneBeacon believes in the added value provided by independent distribution partners as they conduct more complete assessments of their clients needs, which result in more appropriate coverages and prudent risk management. OneBeacon also believes that agents and brokers will continue to be a significant force in overall industry premium production.

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 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 businesses each compete against a different subset of companies. In general terms, OneBeacon competes to varying degrees in one or more of its businesses with most of the large multi-line insurance companies, such as ACE Limited, Chartis Insurance, Chubb Group of Insurance Companies, CNA Insurance, Liberty Mutual Insurance Group, Travelers Insurance Group Holdings Inc. and Zurich Financial Services Ltd. OneBeacon also competes with most of the specialty companies, such as Allied World Assurance Company, HCC Insurance Holdings, Inc., Ironshore Inc., Markel Corporation, RLI Corp. and W.R. Berkley Corporation. Lastly, OneBeacon competes in certain of its businesses with various local and regional insurance companies.

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

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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 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.

Following the Commercial Lines and Personal Lines Transactions, claims operations are now organized into ongoing claims and run-off claims, with specific claims resources supporting the respective operations. This approach allows us to better identify and manage claims handling costs. In addition, a shared claims service unit manages costs related to all claims 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 it to lower the sum of the three. This approach requires the utilization of a considerable number of conventional metrics to monitor the effectiveness of various programs implemented to lower total loss costs. OneBeacon utilizes the metrics to guard against implementation of expense containment programs that will cost 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 identifying 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.

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) 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.

Catastrophe Risk Management and Reinsurance Protection

In the normal course of its business, OneBeacon purchases reinsurance from high-quality, highly rated, third-party reinsurers in order to minimize loss from large losses 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 the area affected by the event as well as the severity of the event. OneBeacon uses models (primarily AIR Version 12) 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 seeks to further reduce its potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective July 1, 2010, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2011. The program provides coverage for OneBeacon s property business, as well as certain acts of terrorism. Under the program, the first $80 million of losses resulting from any single catastrophe are retained and the next $195 million of losses resulting from the catastrophe are reinsured, although OneBeacon retains a co-participation (20% of losses in excess of $80 million up to $100 million and 8% of losses in excess of $100 million up to $140 million). Any loss above $275 million would be retained in full. 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 $275 million limit is sufficient to cover its largest single event natural catastrophe exposure with a 0.4%-0.5% probability of occurrence (1-in-250-year event to 1-in-200-year event). This $275 million limit was reduced from the $850 million limit that OneBeacon s previous catastrophe reinsurance program provided. This reduction was in response to the greatly lower Northeast windstorm exposures as a result of the Commercial Lines Transaction and the Personal Lines Transaction.

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OneBeacon s property catastrophe reinsurance program does not cover 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 property-per-risk reinsurance coverage 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 policies involving workers compensation, general liability, automobile liability, professional liability or umbrella liability in excess of $5 million up to $21 million ($20 million for healthcare professional liability). Liability clash losses involving more than one insured are covered by a dedicated treaty up to $40 million in excess of a retention of $10 million.

In addition, OneBeacon has reinsurance contracts with two reinsurance companies rated AA+ (Very Strong, the second highest of twenty-one financial strength ratings) by Standard & Poor s and A++ (Superior, the highest of fifteen financial strength ratings) by A.M. Best. One contract 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, 2010, OneBeacon has ceded estimated incurred losses of approximately $2.2 billion to the NICO Cover. Net losses paid totaled $1.4 billion as of December 31, 2010, with $182 million paid in 2010. 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). Through December 31, 2010, OneBeacon had 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 nominal. During the year ended December 31, 2010, OneBeacon collected $61million under the GRC Cover.

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 U.S. 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.

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OneBeacon estimates its individual retention level for commercial policies subject to the Terrorism Act to be approximately $135 million in 2011. OneBeacon s retention is based on the previous year s (2010) direct earned premium for subject lines of business and has dropped approximately 25% over 2010 due to the Commercial Lines Transaction. The federal government will pay 85% of covered terrorism losses that exceed OneBeacon s or the industry s retention levels in 2011, up to a total of $100 billion.

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 **Reinsurance Protection and Catastrophe Management** above.

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 nine and a half 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, 2010. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2010. 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, 2010.

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($ in millions)	June 1, 2001(1)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	OneBeacon Loss and LAE (2) Year Ended December 31,										
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	$ 4,125.3	$ 3,472.0
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)	(2,383.4)	(2,069.7)
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	$ 1,741.9	$ 1,402.3
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	700.7	681.2	795.6	
2 years later	2,661.2	3,100.5	2,834.2	2,374.6	1,926.2	1,547.8	1,227.2	1,114.5	1,113.9		
3 years later	3,715.3	4,039.6	3,598.1	2,910.0	2,356.9	1,897.6	1,540.0	1,376.8			
4 years later	4,480.6	4,634.2	4,049.5	3,236.0	2,628.8	2,131.1	1,697.9				
5 years later	4,950.8	4,980.6	4,317.8	3,447.5	2,806.3	2,238.2					
6 years later	5,233.4	5,197.1	4,493.9	3,587.7	2,891.4						
7 years later	5,415.0	5,338.5	4,616.9	3,615.8							
8 years later	5,538.3	5,447.7	4,628.5								
9 years later	5,635.2	5,512.6									
10 years later	5,674.0										
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	1,806.0	1,712.7	1,690.8	
2 years later	4,899.7	5,155.0	4,337.0	3,480.5	2,858.1	2,387.2	1,932.5	1,724.2	1,642.8		
3 years later	5,348.4	5,244.0	4,453.3	3,496.3	2,945.3	2,350.7	1,873.4	1,675.2			
4 years later	5,423.0	5,327.4	4,473.6	3,620.5	2,927.8	2,316.0	1,825.4				
5 years later	5,489.2	5,348.9	4,605.5	3,621.6	2,932.1	2,304.6					
6 years later	5,499.1	5,477.5	4,609.7	3,620.6	2,924.5						
7 years later	5,613.4	5,477.6	4,621.9	3,626.3							
8 years later	5,614.5	5,490.8	4,629.4								
9 years later	5,628.5	5,497.5									
10 years later	5,633.8										
IV. Cumulative net (deficiency)/redundancy	$ (939.4)	$ (682.0)	$ (559.5)	$ (369.1)	$ (163.7)	$ 26.8	$ 203.1	$ 193.0	$ 153.3	$ 51.1	
Percent (deficient)/redundant	(20.0)%	(14.2)%	(13.7)%	(11.3)%	(5.9)%	1.2%	10.0%	10.3%	8.5%	2.9%	
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III. above):											
Gross re-estimated liability	$ 9,912.8	$ 10,127.9	$ 9,205.8	$ 7,516.4	$ 6,441.1	$ 5,699.1	$ 4,881.8	$ 4,503.5	$ 4,335.9	$ 4,069.1	
Less: gross re-estimated reinsurance recoverable	(4,279.0)	(4,630.4)	(4,576.4)	(3,890.1)	(3,516.6)	(3,394.5)	(3,056.4)	(2,828.3)	(2,693.1)	(2,378.3)	
Net re-estimated liability	$ 5,633.8	$ 5,497.5	$ 4,629.4	$ 3,626.3	$ 2,924.5	$ 2,304.6	$ 1,825.4	$ 1,675.2	$ 1,642.8	$ 1,690.8	
VI. Cumulative gross (deficiency)/redundancy	$ (2,901.7)	$ (1,702.7)	$ (1,575.3)	$ (1,278.7)	$ (975.8)	$ 14.2	$ 226.4	$ 215.3	$ 168.9	$ 56.2	
Percent (deficient)/redundant	(41.4)%	(20.2)%	(20.6)%	(20.5)%	(17.9)%	.2%	4.4%	4.6%	3.7%	1.4%	

(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:

	Year Ended December 31,		
Millions	**2010**	**2009**	**2008**
Statutory reserves	**$ 2,681.7**	$ 3,285.4	$ 3,465.0
Reinsurance recoverable on unpaid losses and LAE(1)	**813.1**	866.9	1,073.9
Other(2)	**(22.8)**	(27.0)	(34.4)
Reserves before purchase accounting	**3,472.0**	4,125.3	4,504.5
Purchase accounting	**(176.5)**	(190.5)	(210.5)
GAAP reserves	**$ 3,295.5**	$ 3,934.8	$ 4,294.0

(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/Financing Activities

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, Bermuda, Gibraltar and Luxembourg.

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. Since their issuance through December 31, 2010, OneBeacon has repurchased $280 million face value of the OBH Senior Notes. As a result, at December 31, 2010, $420 million face value of the OBH Senior Notes remained outstanding.

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.

WHITE MOUNTAINS RE

White Mountains Re provides insurance and reinsurance products for property, accident & health, aviation and space, trade credit, marine, casualty, agriculture, and certain other exposures on a worldwide basis through its subsidiaries, WMRe Sirius and WMRe America. WMRe Sirius, which is the largest reinsurance company domiciled in Scandinavia based on gross written premiums, provides multi-line property and casualty insurance and reinsurance products primarily in Europe, the Americas and Asia. WMRe America provides multi-line property and casualty reinsurance products primarily in the United States, Canada, Latin America, and the Caribbean. In September 2009, White Mountains Re reorganized its reinsurance operations by transferring the in-force business of White Mountains Re Bermuda Ltd. (WMRe Bermuda) to WMRe Sirius, which established a branch office in Bermuda to maintain the group s presence in the Bermuda market.

White Mountains Re has offices in Belgium, Bermuda, Connecticut, Copenhagen, Hamburg, London, Miami, New York, Singapore, Stockholm, Toronto and Zurich. At December 31, 2010 and 2009, the White Mountains Re segment had $5.5 billion and $5.6 billion of total assets and $1.3 billion and $1.4 billion of common shareholder s equity, respectively. The White Mountains Re segment wrote $866 million and $807 million in net written premiums in 2010 and 2009, respectively.

The following table presents the financial strength ratings assigned to WMRe Sirius and WMRe America:

	A.M. Best(1)	Standard & Poor s(2)	Moody s(3)	Fitch(4)
WMRe Sirius				

Rating	A (Excellent)	A- (Strong)	A3 (Good)	A- (Strong)
Outlook	Stable	Stable	Stable	Stable
WMRe America				
Rating	A- (Excellent)	A- (Strong)	A3 (Good)	A- (Strong)
Outlook	Stable	Stable	Stable	Stable

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(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 seventh highest of twenty-one financial strength ratings assigned by Fitch.

White Mountains Re acquired Sirius Insurance Holdings Sweden AB (SIHAB) and its subsidiaries from ABB Ltd. on April 16, 2004 for SEK 3.27 billion (approximately $428 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.

White Mountains Re also specializes in the acquisition and management of run-off insurance and reinsurance companies both in the United States and internationally through its White Mountains Re Solutions division (See **White Mountains Re Solutions**).

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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 2010 amounted to 71% and 15%, respectively, of its total net written premiums, while primary direct business represented 14% of total net written premiums.

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 the underlying 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 invest the premiums and earn investment income and generate net realized and unrealized investment gains and losses on investments. 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, 2010, 2009 and 2008:

Business class	**Year Ended December 31,**

Millions	**2010**	**2009**	**2008**
Property catastrophe excess	**$ 185.4**	$ 188.0	$ 202.0
Other property	**243.7**	260.5	283.6
Accident and health	**211.4**	184.3	189.1
Aviation and space	**58.1**	58.4	54.9
Trade credit	**51.5**	6.7	14.2
Marine	**41.8**	39.5	58.2
Casualty	**32.8**	30.4	95.6
Agriculture	**27.2**	25.7	22.4
Contingency	**13.9**	13.3	11.1
Total	**$ 865.8**	$ 806.8	$ 931.1

For each of the years ended December 31, 2010, 2009, and 2008, 86%, 87%, and 88%, respectively, of White Mountains Re s net written premiums were for reinsurance products, with the remainder being insurance products.

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Property Catastrophe Excess

Property catastrophe excess of loss treaties cover losses from catastrophic events. White Mountains Re writes a worldwide portfolio with the largest concentration of exposure in Europe and the United States, and seeks to set prices and terms on treaties wherever possible. The current U.S. book has a national account focus supporting the lower and/or middle layers of large capacity programs. The catastrophe portfolio mainly consists of select large national, small regional and standard lines carriers. The exposures written in the international portfolio are diversified across many countries, regions and perils.

Other Property

White Mountains Re is a leader in the broker market for property treaties written on a proportional and excess of loss basis. For its international business, the book consists of treaty, written on both a proportional and non-proportional basis, facultative, and direct business, primarily in Europe. In the United States, the book predominantly centers on significant participations on proportional and excess of loss treaties for carefully chosen partners in the excess & surplus lines segment of the market.

Accident and Health

White Mountains Re s accident and health business is composed of three major classes of business. In the largest class of business, White Mountains Re is a surplus lines insurer of international medical expenses written through International Medical Group, which is the agent writing on White Mountains Re s behalf. The second major class of business comprises proportional treaties covering employer medical stop loss for per person (specific) and per employer (aggregate) exposures. The third major class of business comprises medical, health and personal accident coverages written on an excess treaty and facultative basis.

Aviation and Space

Aviation insurance covers loss of or damage to an aircraft and the aircraft operations liability to passengers, cargo and mail as well as to third parties. Additionally, liability arising out of non-aircraft operations such as hangars, airports and aircraft products can be covered. Space insurance covers loss of or damage to a satellite during launch and in orbit. The book consists of treaty, written on both on a proportional and non-proportional basis, facultative, and direct business.

Trade Credit

White Mountains Re, through WMRe Sirius, writes credit and bond reinsurance, mostly on companies with worldwide operations. Most debtors are based in Europe, representing approximately 65% of White Mountains Re s exposure. The bulk of the business is traditional short term commercial credit insurance, covering pre-agreed domestic and export sales of goods and services with typical coverage periods of 60 to 120 days. Losses under these policies (protection of undisputed debts against declared insolvency and protracted default) are closely correlated to adverse changes in a respective country s gross national product.

Marine

White Mountains Re, primarily through WMRe Sirius, provides marine reinsurance, primarily written on an excess of loss and proportional basis. Coverage offered includes damage to ships and goods in transit, marine liability lines, and offshore energy industry insurance. The marine portfolio is diversified across many countries and regions.

Casualty

White Mountains Re s casualty treaty division accepts reinsurance submissions for all lines of general casualty and professional liability business. Due to declining casualty premium rates, the overall casualty book of business has decreased over time, with the expectation that the book could grow again when premium rates and contract terms improve to acceptable levels.

Agriculture

White Mountains Re primarily provides proportional coverage to companies writing U.S. government-sponsored Multi-Peril Crop Insurance (MPCI). White Mountains Re s participation is net of the government s stop loss reinsurance protection. White Mountains Re also provides coverage for crop-hail and certain named perils when bundled with MPCI business.

Contingency

White Mountains Re, through WMRe Sirius, underwrites contingency insurance, primarily for event cancellation and non-appearance, primarily on a direct policy and facultative reinsurance basis. Additionally, coverage for liabilities arising from contractual bonus, prize redemption, and over redemption are also offered. The contingency portfolio is diversified across many countries and regions.

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White Mountains Re Solutions

White Mountains Re Solutions is a Connecticut-based division of White Mountains Re specializing in the acquisition and management of run-off insurance and reinsurance companies both in the United States and internationally. The White Mountains Re Solutions team is comprised of a dedicated group of financial, actuarial and claims professionals experienced in the management and resolution of complex insurance liabilities as well as the structuring of transactions designed to enable owners to exit an insurance business and extract trapped capital. Acquisitions typically involve purchases at a significant discount to book value and undergo an extensive due diligence process. Value to White Mountains Re is derived not only from the discount purchase gain but also from the investment income on insurance float on reserves under management, the settlement of claims below the carried level of reserves and the harvesting of other embedded assets including the value of shell companies and licenses.

Cumulative net income, after tax, related to 10 transactions executed by White Mountains Re Solutions from the formation of the division through December 31, 2010 exceeds $140 million.

On February 26, 2010, White Mountains Re completed the acquisition of Central National from Drum Financial Corporation for $5 million. Central National ceased writing business in 1989 and has operated under the control of the Nebraska Department of Insurance since 1990. The transaction resulted in a gain of $13 million recorded in other revenues.

Geographic Concentration

The following table shows White Mountains Re s net written premiums by geographic region for the years ended December 31, 2010, 2009 and 2008:

Geographic region	Year Ended December 31,					
Millions		**2010**		**2009**		**2008**
United States	**$**	**398.9**	$	443.7	$	568.2
Europe		**284.7**		265.5		303.3
Canada, the Caribbean, Bermuda and Latin America		**102.8**		40.3		5.4
Asia and Other		**79.4**		57.3		54.2
Total	**$**	**865.8**	$	806.8	$	931.1

Marketing and Distribution

White Mountains Re obtains most of its reinsurance submissions from reinsurance intermediaries. Business submissions come from intermediaries that represent the ceding company. The process of placing an intermediary reinsurance program typically begins when a ceding company enlists the aid of a reinsurance intermediary in structuring a reinsurance program. The ceding company and the reinsurance intermediary will often consult with one or more lead reinsurers as to the pricing and contract terms for the reinsurance protection being sought.

Once the ceding company has approved the terms quoted by the lead reinsurer, the reinsurance intermediary will offer participation to qualified reinsurers until the program is fully subscribed. White Mountains Re considers both the reinsurance intermediary and the ceding company to be its clients in any placement. White Mountains Re has developed strong business relationships over a long period of time with the management of many of its ceding companies.

White Mountains Re pays ceding companies a ceding commission under most proportional reinsurance treaties and some excess of loss reinsurance treaties. The ceding commission is generally based on the ceding company s cost of acquiring and administering the business being reinsured (e.g., agent commissions, premium taxes and certain miscellaneous expenses). The ceding commissions paid to ceding companies constitute the majority of White Mountains Re s total acquisition costs. Additionally, White Mountains Re pays reinsurance intermediaries commissions based on negotiated percentages of the premium they produce by treaty or certificate.

During the years ended December 31, 2010, 2009, and 2008, White Mountains Re received no more than 10% of its gross written premiums from any individual ceding company. During the years ended December 31, 2010, 2009 and 2008, White Mountains Re received approximately 64%, 60% and 48%, respectively, of its gross reinsurance premiums written from three major, third-party reinsurance intermediaries as detailed in the following table:

	Year Ended December 31,		
Gross written premium by intermediary	**2010**	**2009**	**2008**
AON Re/Benfield(1)	**35%**	37%	30%
Guy Carpenter	**19**	16	12
Willis Re	**10**	7	6
	64%	60%	48%

(1) AON Re acquired Benfield during 2008

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Underwriting and Pricing

White Mountains Re maintains a disciplined underwriting strategy which, while considering overall exposure, focuses on writing more business when market terms and conditions are favorable and reducing business volume during soft markets when terms and conditions become less favorable. White Mountains Re offers clients a wide range of reinsurance products across multiple lines of business to satisfy their risk management needs.

White Mountains Re derives its reinsurance business from a broad spectrum of ceding companies, including national, regional, specialty, and excess and surplus lines writers, both internationally and in the United States. White Mountains Re s underwriters and pricing actuaries perform reviews of the underwriting, pricing, and general underwriting controls of potential ceding companies before quoting contract terms for its reinsurance products. White Mountains Re prices its products by assessing the desired return on the expected capital needed to write a given contract and on the expected underwriting results of the contract. White Mountains Re s pricing indications are based on a number of underwriting factors including historical results, analysis of exposure and estimates of future loss costs, a review of other programs displaying similar exposure characteristics and the ceding company s underwriting and claims experience. Additionally, in the United States, White Mountains Re s underwriters, actuaries and claims personnel perform audits of certain ceding companies. Generally, ceding company audits are not customary outside the United States. White Mountains Re s staff reviews the financial stability and creditworthiness of all ceding companies globally. Such reviews provide important input to support underwriting decisions.

Reinsurers do not have the stringent regulations with respect to contract terms and policy exclusions that are generally imposed on primary insurers. For example, the Terrorism Act is not applicable to reinsurers. As a result, terrorism exclusions on reinsurance contracts are dictated by the marketplace. White Mountains Re evaluates terrorism exposure from its ceding companies and applies exclusions as it deems appropriate and as are permitted by market conditions. Reinsurance on commercial risks written by White Mountains Re subsequent to the terrorist acts of September 11, 2001 generally contains clauses that exclude acts of terrorism certified under the Terrorism Act. Reinsurance on personal risks written by White Mountains Re subsequent to the terrorist acts of September 11, 2001 generally contains exclusions related to nuclear, biological, radiological and chemical attacks.

Competition

The worldwide insurance and reinsurance markets are highly competitive. Competition is influenced by a variety of factors, including price charged and other terms and conditions offered, financial strength ratings, prior history and relationships, as well as expertise and the speed at which the company has historically paid claims.

White Mountains Re competes for business in Europe, Bermuda, the United States, and other international markets with numerous global competitors. White Mountains Re s competitors include insurance and reinsurance companies as well as underwriting syndicates at Lloyd s of London. Some of the companies that White Mountains Re competes directly with include Alterra Capital Holdings, Ltd., Arch Capital Group Ltd., Axis Capital Holdings, Ltd., Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., Flagstone Re Holdings SA, General Reinsurance Corporation, Hannover Ruckversicherung AG, Lloyd s of London, Montpelier Re Holdings, Ltd., Munich Re Group, Odyssey Re Holdings Corp., PartnerRe Ltd., Platinum Underwriters Holdings Ltd., Renaissance Re Holdings Ltd., Scor, Swiss Re Group, Transatlantic Holdings, Inc., Validus Holdings, Ltd., and XL Capital Ltd.

Claims Management

White Mountains Re maintains a staff of experienced insurance and reinsurance claim specialists. Its reinsurance claims specialists work closely with intermediaries to obtain specific claims information from ceding companies. Where customary and appropriate, White Mountains Re s claims staff perform selective on-site claim reviews to assess ceding companies claim handling abilities and reserve techniques. In addition, White Mountains Re s claims specialists review loss information provided by ceding companies for adequacy and accuracy. The results of these claim reviews are shared with the underwriters and actuaries to assist them in pricing products and establishing loss reserves.

White Mountains Re also uses TPAs for certain claims, including claims arising from certain of White Mountains Re s run-off claims related to certain acquired companies. White Mountains Re s claims staff performs on-site claim audits of certain TPAs to ensure the propriety of the controls and processes over claims serviced by the TPAs.

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Catastrophe Risk Management

White Mountains Re has exposure to losses caused by hurricanes, earthquakes, tornadoes, winter storms, windstorms, floods, tsunamis, terrorist acts and other catastrophic events. In the normal course of business, White Mountains Re regularly manages its concentration of exposures to catastrophic events, primarily by limiting concentrations of exposure to what it deems acceptable levels and, if necessary, purchasing reinsurance. In addition, White Mountains Re seeks to limit losses that might arise from acts of terrorism in its insurance and reinsurance contracts by exclusionary provisions, where applicable. White Mountains Re also uses third-party global catastrophe models as well as its own proprietary models to calculate expected probable maximum loss (PML) from various natural catastrophic scenarios. White Mountains Re believes that its largest natural catastrophic exposures, net of reinsurance and based on a 250-year PML single event scenario, are European winter storms, United States Gulf Coast windstorms (i.e., Florida to Texas), California earthquakes, United States Atlantic Coast windstorms (i.e., Massachusetts to Florida) and, to a lesser extent, Japanese windstorms and earthquakes.

White Mountains Re monitors and prices its property catastrophe contracts using third-party software models and internally developed models as well as other methods. For contracts that White Mountains Re determines to have exposure to natural catastrophic perils, it models and assesses the exposure using the results in its underwriting process to ensure that the contracts it writes have an appropriate charge for the exposure.

Catastrophe exposure modeling is inherently uncertain due to process risk (the probability and magnitude of the underlying event, e.g. earthquake) and parameter risk (the probability of making inaccurate model assumptions). In particular, geographic and policy coverage data on the primary policies reinsured by White Mountains Re is essential. Accordingly, White Mountains Re s ability to predict its catastrophe exposure is dependent on the quality and accuracy of data obtained from its clients.

Additionally, catastrophe modeling is dependent upon several broad economic and scientific assumptions, such as storm surge (the water that is pushed toward the shore by the force of a windstorm), demand surge (the localized increase in prices of goods and services that often follow a catastrophe) and zone density (the percentage of insured perils that would be affected in a region by a catastrophe). Third-party modeling software also does not provide information for all territories or perils (e.g. tsunami) for which White Mountains Re writes business.

White Mountains Re does not believe that it can rely solely upon catastrophe modeling to measure its exposure to natural catastrophic risk. For example, the losses arising from Hurricane Katrina for both White Mountains Re and the industry were substantially in excess of losses previously predicted by third-party models from such an event. This was due to issues such as inadequate storm surge and demand surge assumptions in the models, as well as flooding from levees breaking which was not fully contemplated in these models. Correspondingly, White Mountains Re also assesses catastrophe risk by monitoring total limits exposed to a catastrophe event in key zones.

The following table provides an estimate of White Mountains Re s three largest PML zones at January 31, 2011:

				White Mountains Re Net After-Tax Loss		
($ in millions)	**Modeled Industry Loss**	**Gross Loss**	**Net After Reinsurance and**	**Net After Tax**	**Net After-Tax as % of GAAP Capital(1)**	**Net After-Tax as % of GAAP Common**

			Reinstatements			Shareholder s Equity(1)
			1 in 250 year event			
Southeast U.S.	$ 154,264	$ 392	$ 341	$ 249	10%	14%
Northeast U.S.	53,583	328	255	186	8%	11%
Europe	43,912	633	239	176	7%	10%
			1 in 10,000 year event			
Southeast U.S.	$ 351,294	$ 561	$ 494	$ 360	15%	20%
Northeast U.S.	237,403	550	440	320	13%	18%
Europe	117,649	1,001	405	298	12%	17%

(1) GAAP capital and common shareholder s equity at December 31, 2010 for White Mountains Re is determined on a legal-entity basis.

To better manage its aggregate exposure to very large catastrophic events, White Mountains Re monitors the maximum net financial impact (NFI) it would suffer in the worst aggregate loss year modeled in third-party software (i.e., the 10,000-year global annual aggregate PML). The calculation of the NFI begins with the modeled 10,000-year global annual aggregate PML and takes account of estimated reinstatement premiums, reinsurance recoverables net of estimated uncollectible balances, and tax benefits. This amount is deducted from White Mountains Re s planned legal entity comprehensive net income for the year to arrive at the NFI. The NFI does not include the potential impact of the loss events on White Mountains Re s investment portfolio.

For 2011, the NFI limit has been re-set at $700 million, which is approximately 29% and 40% of White Mountains Re s total legal entity GAAP capital and common shareholder s equity at December 31, 2010, respectively. The NFI limit was set using foreign currency exchange rates and third-party property-catastrophe model versions as of October 31, 2010, and White Mountains Re s overall risk tolerances. The NFI calculation is subject to future fluctuation from a variety of factors, including foreign currency movements, changes in third-party models, market pricing, terms and conditions, as well as the availability and pricing of retrocessional protections. At January 31, 2011, White Mountains Re believes that it was under its NFI limit. White Mountains Re also monitors its NFI for global annual aggregate tail value at risk (TVaR) at the 100, 250, 500, and 1,000 year periods. TVaR represents the average loss for the named period through the 10,000 years (e.g., TVaR 250 represents the average loss for the worst forty modeled years).

White Mountains Re monitors gross and net property catastrophe occurrence limits by country and region globally. Occurrence limits for peak zones in Europe, Japan, and the United States are assessed versus modeled catastrophe risk as another measure in understanding total property catastrophe exposure to large events.

Actual losses incurred by White Mountains Re resulting from any particular catastrophic event may be substantially different than modeled losses from such event due to the process and parameter risks mentioned above.

The net after-tax loss table and NFI calculations referenced above reflect a full tax benefit at the applicable statutory rate in each jurisdiction, where applicable. There can be no assurance that a full tax benefit, or existing deferred tax assets, will be totally recoverable in each jurisdiction, or that a full or partial valuation allowance will not have to be applied against these amounts in White Mountains GAAP financial statements.

Reinsurance Protection

White Mountains Re s reinsurance protection primarily consists of pro-rata and excess of loss protections to cover aviation, trade credit, and certain property exposures. White Mountains Re s property reinsurance provides both proportional and non-proportional protections for Europe, the Americas, Asia, the Middle East, and Australia. This reinsurance is designed to increase underwriting capacity where appropriate, and to reduce exposure both to large catastrophe losses and to a frequency of smaller loss events. Attachment points and coverage limits vary by region around the world. In addition to its proportional reinsurance purchases for certain property exposures, White Mountains Re also purchases excess of loss reinsurance for $15 million of protection in excess of a retention of $5 million for the facultative and direct property portfolios written by the Stockholm, London, and Hamburg branches. For 2011, industry loss warranties (ILW) for European wind exposures and floods with $20 million of available limit were renewed, attaching at various levels. The ILWs in force for 2011 do not have reinstatement coverage after a loss event.

White Mountains Re also purchases excess of loss retrocessional protection for its non-U.S. and non-Japan earthquake-related exposures. At April 1, 2010, White Mountains Re renewed coverage for $65 million of protection in excess of a $45 million retention, which is effective through March 31, 2011. During 2010, White Mountains Re recovered the full $65 million limit under the earthquake cover as a result of the Chilean Earthquake. Additionally, in 2010 White Mountains Re purchased $60 million of available limit of ILWs for a potential New Madrid earthquake that attached with a $20 billion event. This coverage was not renewed for 2011.

White Mountains Re s aviation reinsurance program is intended to reduce exposure to a frequency of small losses, a single large loss or a combination of both. In 2011, for the facultative and proportional aviation portfolio, reinsurance protection was purchased in excess of a market loss of $150 million up to a full airline policy limit of $2.25 billion. Non-proportional aviation writings are protected by a 15% quota share treaty and several excess of loss covers with varying attachment points and limits. The non-proportional account is also protected by $22.5 million of protection in first event ILW coverage attaching at industry event levels between $400 and $750 million, in addition to $4 million of available limit for second and third event ILW protections attaching at $300 million and $200 million per event, respectively.

In 2010, White Mountains Re ceded 25% of its trade credit business under a quota share retrocession, which supported growth in this line. The treaty was renewed for 2011 at a 19% cession percentage.

All of White Mountains Re s excess of loss reinsurance protections include provisions that reinstate coverage for the full available limit of the cover based on 100% or more of the original reinsurance premium, which is calculated proportionally to the loss limit being reinstated.

At December 31, 2010, White Mountains Re had $19 million of reinsurance recoverables on paid losses and $451 million of reinsurance recoverables on unpaid losses that will become recoverable if claims are paid in accordance with current reserve estimates. Because retrocessional reinsurance contracts do not relieve White Mountains Re of its obligation to its insureds, the collectability of balances due from White Mountains Re s reinsurers is critical to its financial strength. White Mountains Re monitors the financial strength and ratings of retrocessionaires on an ongoing basis. See **Note 4- Third-party Reinsurance** to the accompanying consolidated financial statements for a discussion of White Mountains Re s top reinsurers.

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Loss and Loss Adjustment Expense Reserves

White Mountains Re establishes reserves that are estimates of future amounts needed to pay claims and related expenses 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 White Mountains Re s loss reserving process.

The following information presents (1) White Mountains Re s reserve development over the preceding ten years and (2) a reconciliation of reserves on a regulatory basis to reserves determined in accordance with GAAP, each as prescribed by Securities Act Industry Guide No. 6.

Section I of the 10 year 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 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 and severity 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, 2010. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2010. 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, 2010.

	White Mountains Re Loss and LAE Year ended December 31,										
($ in millions)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
I. Liability for unpaid loss and LAE:											
Gross balance	$ 1,479.9	$ 1,581.4	$ 1,588.4	$ 1,699.4	$ 3,864.3	$ 4,308.8	$ 3,708.8	$ 3,252.3	$ 2,735.5	$ 2,444.4	$ 2,441.3
Less reinsurance recoverable on unpaid losses and LAE	(702.8)	(879.5)	(809.8)	(741.1)	(1,149.8)	(1,633.6)	(1,142.5)	(806.4)	(545.6)	(578.6)	(450.5)
Net balance	$ 777.1	$ 701.9	$ 778.6	$ 958.3	$ 2,714.5	$ 2,675.2	$ 2,566.3	$ 2,445.9	$ 2,189.8	$ 1,865.7	$ 1,990.8
II. Cumulative amount of net liability paid through:											
1 year later	350.0	230.6	250.7	321.5	941.0	949.4	721.7	726.2	637.4	276.2	
2 years later	492.1	391.2	420.8	521.8	1,369.4	1,442.9	1,302.0	1,164.5	760.8		
3 years later	596.9	501.4	559.1	710.8	1,684.9	1,942.5	1,645.2	1,207.4			
4 years later	666.6	602.7	690.9	834.7	2,052.4	2,225.6	1,649.2				

5 years later	735.2	739.3	804.5	941.0	2,246.0	2,192.3				
6 years later	833.9	830.6	885.7	1,015.7	2,170.9					
7 years later	899.9	895.8	926.5	901.6						
8 years later	949.9	922.1	807.1							
9 years later	967.9	799.7								
10 years later	848.7									
III. Net Liability re-estimated as of:										
1 year later	782.7	704.9	828.9	984.9	2,771.9	2,893.2	2,575.4	2,525.7	2,159.4	1,808.5
2 years later	767.7	758.7	856.9	1,059.6	2,802.9	3,032.5	2,775.8	2,539.8	2,140.6	
3 years later	815.7	800.5	929.8	1,148.1	2,917.9	3,164.9	2,749.3	2,517.2		
4 years later	850.8	872.2	1,023.8	1,270.2	3,063.6	3,133.3	2,743.4			
5 years later	918.5	968.4	1,138.6	1,425.0	3,021.4	3,124.8				
6 years later	998.2	1,077.8	1,280.5	1,382.7	3,013.1					
7 years later	1,097.7	1,196.4	1,228.5	1,379.8						
8 years later	1,188.2	1,150.4	1,226.0							
9 years later	1,165.3	1,142.9								
10 years later	1,155.7									
IV. Cumulative net deficiency	$ (378.6)	$ (440.9)	$ (447.3)	$ (421.5)	$ (298.6)	$ (449.6)	$ (177.1)	$ (71.3)	$ 49.2	$ 57.2
Percent deficient	(48.7)%	(62.8)%	(57.5)%	(44.0)%	(11.0)%	(16.8)%	(6.9)%	(2.9)%	2.2%	3.1%
V. Reconciliation of net liability re-estimated as of the end of the latest re-estimation period (see III above):										
Gross re-estimated liability	$ 2,101.1	$ 2,214.5	$ 2,157.1	$ 2,257.2	$ 4,404.8	$ 5,029.6	$ 3,946.2	$ 3,297.2	$ 2,719.5	$ 2,383.1
Less: gross re-estimated reinsurance recoverable	(945.4)	(1,071.6)	(931.1)	(877.4)	(1,391.7)	(1,904.8)	(1,202.9)	(780.0)	(578.9)	(574.6)
Net re-estimated liability	$ 1,155.7	$ 1,142.9	$ 1,226.0	$ 1,379.8	$ 3,013.1	$ 3,124.8	$ 2,743.4	$ 2,517.2	$ 2,140.6	$ 1,808.5
VI. Cumulative gross deficiency	$ (621.3)	$ (633.1)	$ (568.7)	$ (557.8)	$ (540.5)	$ (720.8)	$ (237.4)	$ (44.9)	$ 16.0	$ 61.3
Percent deficient	(42.0)%	(40.0)%	(35.8)%	(32.8)%	(14.0)%	(16.7)%	(6.4)%	(1.4)%	.6%	2.5%

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The cumulative net deficiency in the table above includes adverse development from A&E claims. White Mountains Re s exposure to A&E claims results mainly from asbestos claims arising from treaty and facultative contracts written prior to 1985 at two companies acquired by WMRe America MONY Reinsurance Corporation in 1991 and Christiania General Insurance Corporation in 1996. As a result, the table above reflects reserve development on A&E business that was not underwritten by White Mountains Re.

White Mountains Re s net incurred losses from A&E claims have totaled $212 million over the past ten years. Although losses arising from A&E claims were on contracts that were not underwritten by White Mountains Re, White Mountains Re is liable for any additional losses arising from such contracts. Accordingly, White Mountains Re cannot guarantee that it will not incur additional A&E losses in the future. Refer to **CRITICAL ACCOUNTING ESTIMATES** in **Management s Discussion and Analysis of Financial Condition and Results of Operations** for further details of White Mountains Re s A&E reserves.

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

		December 31,	
Millions	**2010**	**2009**	**2008**
Regulatory reserves	**$ 2,151.6**	$ 2,196.8	$ 2,373.9
Reinsurance recoverable on unpaid losses and LAE(1)	**1,190.4**	965.4	1,058.8
Discount on loss reserves	**16.4**	27.1	105.4
Reserves allocated to Esurance	**(286.9)**	(333.4)	(299.3)
WM Life Re reserves (2)	**(610.2)**	(380.7)	(467.1)
Purchase accounting and other	**(20.0)**	(30.8)	(36.3)
GAAP reserves	**$ 2,441.3**	$ 2,444.4	$ 2,735.4

(1) Represents adjustments made to add back reinsurance recoverables included with the presentation of reserves under regulatory accounting. Includes recoverables from WM Life Re business and recoverables on intercompany treaties that are eliminated in consolidation.

(2) WMRe Sirius fronted the reinsurance contracts for, and is 100% reinsured by, WM Life Re. These instruments are reported as reinsurance contracts under Swedish statutory regulations. For GAAP purposes, the liabilities are transferred to WM Life Re and reported as derivative instruments.

White Mountains Re s Intermediate Holdings Companies/Financing Activities

White Mountains Re s intermediate holding companies include White Mountains Re Group, Ltd. (WMRe Group) as well as various intermediate holding companies domiciled in the United States, Bermuda, Gibraltar, Luxembourg, the Netherlands and Sweden.

In May 2007, WMRe Group issued $250 million non-cumulative perpetual preference shares, with a $1,000 per share liquidation preference (the WMRe Preference Shares), and received $246 million of proceeds, net of $4 million of issuance costs and commissions. These shares were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. Holders of the WMRe Preference Shares receive dividends on a non-cumulative basis when and if declared by WMRe Group. The holders of the WMRe Preference Shares have the right to elect two directors to WMRe Group s board in the event of non-payment of dividends for six quarterly dividend periods. The right ceases upon the payment of dividends for four quarterly periods or the redemption of the WMRe Preference Shares. In addition, WMRe Group may not declare or pay dividends on its common shares (other than stock dividends and dividends paid for purposes of any employee benefit plans of WMRe Group and its subsidiaries) unless it is current on its most recent dividend period. The dividend rate is fixed at an annual rate of 7.506% until June 30, 2017 and dividends are paid on a semi-annual basis. After June 30, 2017, the dividend rate will be paid at a floating annual rate, equal to the greater of (1) the 3 month LIBOR plus 3.20% or (2) 7.506% and dividends will be paid on a quarterly basis. The WMRe Preference Shares are redeemable solely at the discretion of WMRe Group on or after June 30, 2017 at their liquidation preference of $1,000 per share, plus any declared but unpaid dividends. Prior to June 30, 2017, WMRe Group may elect to redeem the WMRe Preference Shares at an amount equal to the greater of (1) the aggregate liquidation preference of the shares to be redeemed and (2) the sum of the present values of the aggregate liquidation preference of the shares to be redeemed and the remaining scheduled dividend payments on the shares to be redeemed (excluding June 30, 2017), discounted to the redemption date on a semi-annual basis at a rate equal to the rate on a comparable treasury issue plus 45 basis points. In the event of liquidation of WMRe Group, the holders of the WMRe Preference Shares would have preference over the common shareholders and would receive a distribution equal to the liquidation preference per share, subject to availability of funds.

In March 2007, WMRe Group issued $400 million face value of senior unsecured notes at an issue price of 99.715% (the WMRe Senior Notes). The WMRe Senior Notes, which were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933, bear an annual interest rate of 6.375%, payable semi-annually in arrears on March 20 and September 20, until maturity in March 2017.

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ESURANCE

Esurance, which is headquartered in San Francisco, writes personal auto insurance in 30 states through its website and over the phone and also sells other lines of personal insurance for unaffiliated insurance companies. Esurance also writes personal auto policies through select on-line agents and provides other insurance products through partnerships with industry leading online providers. The 30 states in which Esurance writes business represent approximately 87% of the premium volume for the entire U.S. personal auto insurance market. Esurance writes its policies using three insurance companies, Esurance Insurance Company, Esurance Insurance Company of New Jersey and Esurance Property and Casualty Insurance Company (collectively, the Esurance Insurance Companies), all of them rated A- (Excellent, the fourth highest of fifteen financial strength ratings with a stable outlook by A.M. Best). AFI, which is headquartered in southern California, earns commissions by selling personal auto, homeowners, renters and condo insurance policies online and over the phone using a comparison quoting platform. AFI sells policies in 50 states and the District of Columbia for many insurance companies, including Esurance. Esurance also earns commissions and fees by referring to unaffiliated insurance companies those shoppers that it cannot underwrite because of pricing or underwriting eligibility. By combining the capabilities of Esurance and AFI, the Esurance segment provides a better shopping experience for consumers and efficiently leverages its marketing expenses.

As of December 31, 2010, the Esurance segment had 839,000 policies-in-force; 509,000 underwritten by Esurance (24,000 of which were placed by AFI) and 304,000 written by unaffiliated insurers through AFI.

Over the past several years, Esurance has ceded a large percentage of its business to certain other subsidiaries of White Mountains primarily for capital management purposes. However, all reinsurance business transacted with affiliate subsidiaries, and the related capital supporting such business, is added back to the Esurance segment for reporting purposes because Esurance management is responsible for the gross results.

At December 31, 2010 and 2009, the Esurance segment had $1,272 million and $1,218 million of total assets and $502 million and $495 million of common shareholder s equity, respectively. The Esurance segment wrote approximately $836 million and $779 million in net written premiums in 2010 and 2009, respectively.

Geographic Concentration

For the years ended December 31, 2010, 2009 and 2008, Esurance had gross written premiums of $839 million, $781 million and $826 million, respectively, which were distributed in the following states:

	Year Ended December 31,		
Gross written premiums by state	**2010**	**2009**	**2008**
California	**20%**	23%	24%
Florida	**14**	14	16
New Jersey	**9**	5	4
New York	**6**	7	7
Texas	**5**	5	5
Pennsylvania	**4**	4	4

Illinois	**4**	4	3
Michigan	**4**	4	4
Colorado	**3**	3	3
Other	**31**	31	30
Total	**100%**	100%	100%

For the year ended December 31, 2010, AFI s largest states were California (17% of policies-in-force), Texas (8%), Florida (6%), Pennsylvania (4%) and Ohio (4%). For 2009, AFI s largest states were California (17% of policies-in-force), Texas (7%), Florida (6%), Pennsylvania (4%) and Maryland (4%).

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Marketing and Distribution

Esurance targets technology-savvy consumers who rely on the internet to manage their financial services needs but also want the option of personal customer service. Esurance launched a new advertising campaign, Techie Feely , in 2010, in which actors portray Esurance employees working together to serve customers over the phone and online in a humorous office setting. Esurance maintained its animated icon, Erin Esurance , as a background element in the new campaign to provide a bridge to its previous advertising and to reinforce the brand. In 2010, Esurance continued to have a diverse marketing mix with advertising on national television, in select local markets, online through search engines (e.g., Google and Bing), and through a variety of insurance and financial services web sites. Esurance also has marketing relationships with sports, environmental, and community organizations. Esurance is the third largest issuer of personal auto insurance quotes online, behind only GEICO and Progressive, and also the third most recognizable brand for companies that sell personal auto insurance online.

Customer interaction with Esurance generally takes place through www.esurance.com or over the phone. On www.esurance.com, shoppers can obtain real-time quotes, compare quotes from other insurance companies, purchase their policies, report claims, monitor vehicle repairs, make changes to their policy and manage their accounts. AFI sells personal auto, homeowners, renters and condo insurance through its comparison quoting platform, which allows insurance shoppers to easily compare prices and purchase a policy from Esurance or over 20 other leading insurance carriers through AFI s website or by calling one of its in-house agents. AFI also sells insurance products through partnerships with financial services firms, retailers, insurance carriers, including Esurance, and a few large employer groups that provide insurance to their employees, by use of marketing programs that include placements on partner websites, inserts in partner mailers and phone transfers and referrals.

Underwriting and Pricing

Esurance collects and verifies detailed underwriting information in real-time while customers complete transactions online or over the phone. Real-time access to customer information allows Esurance to continually develop and refine its highly segmented, tiered pricing models, enhance its personal auto product, and optimize dollars spent on marketing. Esurance believes that its tiered pricing models have a greater statistical correlation with historical loss experience than traditional pricing models have shown. As a result, Esurance is able to respond quickly to changing loss trends and quote rates to customers that closely correspond to the individual risk characteristics of the customer, enabling it to focus on keeping insurance rates competitive without compromising its loss ratio targets.

Competition

Esurance competes with national and regional insurance companies. However, it competes most directly with other direct personal auto writers like GEICO and Progressive.

Esurance believes that strong customer service is essential to its ability to effectively compete. Esurance offers policy support to customers via its web site or through a service center that operates 24/365. Customers can choose to contact Esurance for policy support by phone, interactive voice response or email, and may report losses by phone or online. Esurance enables customers to conduct most of their policy service needs online, but also provides ready access to customer service representatives to answer any questions or provide any assistance needed. Esurance s goal is to provide service that is responsive to customer s needs while providing a choice of convenient interactive options.

Esurance s paperless business process allows it to significantly reduce operating costs typically associated with policy processing, verification and endorsement activities. As a result, Esurance is able to achieve efficient, low-cost acquisition and operating expense structures. Further, Esurance s paperless business model is the foundation of the company s environmental commitment, which helps differentiate Esurance from its competitors.

Claims Management

Esurance invests in technology to maintain state-of-the-art claims processing. Esurance seeks to use both internal-use and publicly-accessible technology that provides prompt, effective claims resolution at minimum cost. Esurance takes initial notice of claims at its loss reporting unit in Sioux Falls, South Dakota, which then assigns claims to regional claim offices in Arizona, California, Colorado, Florida, Georgia, New Jersey, New York, Texas and Wisconsin where claims are handled and adjusted.

The material damages unit attempts to resolve claims in a timely, fair and accurate manner using both in-house and external inspectors and appraisers. Although customers have the right to repair their vehicle wherever they choose, Esurance offers the customers access to a network of repair facilities located throughout the United States that allow them to monitor the repair process on-line via daily photo updates.

The claims department has a subrogation unit dedicated to recovering claims paid that are primarily obligations of other insurers or uninsured drivers. The claims department also includes investigators in the regional offices and a central special investigation unit that work in conjunction with local and national law enforcement agencies to mitigate insurance fraud.

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Claims representatives verify coverage, determine liability, assess damage (including injuries) and pay claims. The representatives compare their assessments with historical settlements on similar claims archived in externally-licensed databases to ensure that claims paid are fair and equitable. Esurance has tiered the claims representative positions based on experience and performance to maximize the department s efficiency, with simpler claims processed by lower-tier handlers. A central claims training unit provides these representatives and other claims staff in-house and on-line training proprietarily developed to suit Esurance s operations.

The Esurance claims operations are reviewed by a customer service unit that conducts monthly surveys of insureds who have been involved in accidents. Also, Esurance annually contracts with an independent consulting firm to identify potential improvements in customer service and operational efficiencies. Lastly, the corporate claims audit team conducts annual comprehensive branch-level reviews to confirm accurate claims processing, and specialized audits where claim payment trends generate concern.

Catastrophe Risk Management

Esurance writes personal auto insurance that covers liabilities and physical damage arising from the operation of automobiles. The majority of Esurance s customers elect coverage for physical damage (72%), resulting in exposure to catastrophe losses from hurricanes, hailstorms, earthquakes and other acts of nature. Generally, catastrophe costs are low for personal auto in relation to other lines of business, such as homeowners and commercial property. Additionally, Esurance s broad geographic distribution limits its concentration of risk and the potential for losses to accumulate from a single event.

Loss and Loss Adjustment Expense Information

Esurance 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 Esurance s loss reserving process.

The following information presents (1) Esurance s loss and LAE reserve development over the ten years since inception and (2) a reconciliation of loss and LAE reserves on a Statutory basis to loss and LAE 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 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.

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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 claim frequency and claim severity 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, 2010. Section V shows the re-estimated gross liability and re-estimated reinsurance recoverables through December 31, 2010. 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, 2010.

	Esurance Loss and LAE(1)(2) Year Ended December 31,								
($ in millions)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
I. Liability for unpaid loss and LAE:										
Gross balance	$ 4.0	$ 15.5	$ 39.1	$ 63.0	$ 94.1	$ 167.4	$ 285.3			