

REPORT ON EXAMINATION

OF THE

WHITE MOUNTAINS REINSURANCE COMPANY OF AMERICA

AS OF

DECEMBER 31, 2009

DATE OF REPORT

JUNE 7, 2011

EXAMINER

MOSES EGBON

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Management	5
	B. Territory and plan of operation	7
	C. Reinsurance	8
	D. Holding company system	11
	E. Significant operating ratios	15
	F. Accounts and records	15
3.	Financial statements	18
	A. Balance sheet	18
	B. Statement of income	20
	C. Capital and surplus account	21
4.	Losses and loss adjustment expenses	21
5.	Compliance with prior report on examination	22
6.	Summary of comments and recommendations	24



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

May 31, 2011

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30585 dated August 21, 2010 attached hereto, I have made an examination into the condition and affairs of White Mountains Reinsurance Company of America as of December 31, 2009, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate White Mountains Reinsurance Company of America.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's home office located at 1 Liberty Plaza, New York, New York 10006.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2004. This examination covered the five-year period from January 1, 2005 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment and an evaluation based upon the Company’s Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. **DESCRIPTION OF COMPANY**

White Mountains Reinsurance Company of America was incorporated on September 13, 1979 under the laws of New York and began business on January 9, 1980. The Company was formerly known as Folksamerica Reinsurance Company.

The Company is a wholly-owned subsidiary of White Mountains Holding Company, Inc., (“WMHC”) a New York corporation, formerly known as Folksamerica Holding Company, Inc. (“FHC”). The Company’s direct holding company is owned by White Mountains Re Holdings Inc, a Delaware corporation, which is ultimately owned by White Mountains Insurance Group Ltd (“WMIG”), a publicly traded Bermuda corporation. WMIG operates a worldwide property and casualty and reinsurance business through three key segments. These segments are the OneBeacon segment, the Esurance segment, and the White Mountains segment, which includes the Company. The OneBeacon segment offers specialty line products, the Esurance segment offers personal auto insurance, and the White Mountains segment provides worldwide reinsurance for property, casualty, accident and health as well as other coverages.

During the examination period, the Company has transitioned from being a global reinsurer to primarily a United States reinsurer. WMIG has utilized its subsidiary, Sirius International Insurance Corporation, as its primary writer of reinsurance outside of the United States. WMIG acquired Sirius International Insurance Corporation in 2004. This has resulted, along with other factors such as a soft market, in a sharp decline in the Company’s premium volume during the examination period with the gross written premium volume declining from \$1,292,839,495 in calendar year 2005 to \$612,011,120 in calendar year 2009.

In addition to the decline in premium, there has been a substantial shift in the type of business written by the Company. The Company’s premium writings in almost all lines of business have declined with the exceptions of private passenger auto liability and auto physical damage. The

increase in the auto lines of business reflects the assumption of business from the Company's affiliate, Esurance Insurance Company, which began in 2007. The Company assumed \$319,373,210 in premiums from Esurance in 2009 which represented approximately 52 percent of the Company's 2009 premium volume.

On December 22, 2006, the Company acquired Mutual Service Casualty, a Minnesota-domiciled runoff insurer, formerly affiliated with Illinois-based Country Insurance & Financial Services. As part of a sponsored demutualization and conversion to a stock company, Mutual Service Casualty was renamed Stockbridge Insurance Company ("SIC"). On October 1, 2007, substantially all of the assets and liabilities of SIC were transferred to the Company through a transfer and assumption agreement leaving SIC a dormant shell insurer. On November 1, 2007, the Company sold SIC.

On July 8, 2008, the Company changed its name from Folksamerica Reinsurance to its current name, White Mountains Reinsurance Company of America.

On October 18, 2007, the Company received approval from the Department to return excess capital valued at \$285 million, to its parent company. As a result of this transaction, the Company retired 1,183 shares of its stocks, which decreased its common shares outstanding to 3,817 from 5,000. The Company increased the common shares par value per share from \$1,000 to \$1,309.93 resulting in common capital stock valued at \$5,000,003. During the examination period, gross paid in and contributed surplus increased by \$14,989,236 detailed as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
January 1, 2005	Beginning gross paid in and contributed surplus	\$752,221,695
2005	Capital contribution	250,000,000
2007	Capital returned to holding company	(285,010,764)
2008	Capital contribution	<u>50,000,000</u>
December 31, 2009	Ending gross paid in and contributed surplus	<u>\$767,210,931</u>

On October 21, 2010, the Company with permission from the Department redeemed 700 shares of the Company's common stock at an aggregate price of \$149,965,438. As a result of the transactions, the Company's common shares outstanding were reduced from 3,817 to 3,117 and the par value per share was adjusted to \$1604.11 resulting in common capital stock valued at \$5,000,011.

On May 18, 2011, the White Mountains Group announced that it had signed a definitive agreement to sell its Esurance and Answer Financial business to Allstate. This could have a significant impact on the Company given that the premiums assumed from Esurance constituted approximately 52% of the Company's 2009 premium volume.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen or more than twenty-one members. The board met four times during each calendar year. It is noted that the Company has no independent members on the board.

At December 31, 2009, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Allan Lewis Waters Hanover, NH	President & Chief Executive Officer, White Mountains Re Ltd.
Jeffrey Wayne Davis Washington Crossing, PA	Executive Vice President, White Mountains Re Ltd.
Joann Louise DeBlasis Ridgefield, CT	Senior Vice President & Chief Underwriting Officer, White Mountains Reinsurance Company of America
Dwight Richard Evans Westfield, NJ	President & Chief Executive Officer, White Mountains Reinsurance Company of America
Robert Joseph Freiling Yardley, PA	Senior Vice President, Treasurer & Chief Financial Officer, White Mountains Reinsurance Company of America
Peter Lewis Hudson Amityville, NY	Senior Vice President, White Mountains Reinsurance Company of America
Brian Eugene Kensil Celebration, FL	Chief Financial Officer, White Mountains Re Ltd.

Name and ResidencePrincipal Business Affiliation

Faith Mary Pipitone
Maspeth, NY

Senior Vice President & Chief Actuary,
White Mountains Reinsurance Company of
America

Ralph Anthony Salamone
Ridgewood, NJ

President & Chief Executive Officer,
White Mountains Re Services LLC

Anthony Angelo Sasso
Hillsborough, NJ

Senior Vice President & Chief Underwriting
Officer,
White Mountains Reinsurance Company of
America

Warren John Trace
St. George's HS02, Bermuda

President & Chief Executive Officer,
White Mountains Re Sirius - Bermuda

Diane Tuffey
Douglaston, NY

Vice President,
White Mountains Advisors LLC

Daniel James Wilson
Manalapan, NJ

Chief Operating Officer,
White Mountains Reinsurance Company of
America

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2009, the principal officers of the Company were as follows:

NameTitle

Dwight Richard Evans
Robert Joseph Freiling

President and Chief Executive Officer
Treasurer, Senior Vice President &
Chief Financial Officer

Robert Peter Kuehn

Secretary, Senior Vice President &
General Counsel

Joann Louise DeBlasis
Peter Lewis Hudson
Anthony Angelo Sasso

Senior Vice President
Senior Vice President
Senior Vice President

John Stanley Game
George Robert Iacono

Senior Vice President
Senior Vice President & Controller

Daniel James Wilson

Chief Operating Officer

Ronald Glen Henry

Senior Vice President

Faith Mary Pipitone

Senior Vice President & Chief Actuary

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in forty-four states, Puerto Rico and the District of Columbia. The Company was also authorized to do business as an accredited reinsurer in Florida, Minnesota, Rhode Island, Vermont and West Virginia. Credit was also allowed for reinsurance in Maine.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is authorized by Section 4102(c) of the New York Insurance Law to write insurance of every kind or description outside of the United States ("U.S.") as well as reinsurance of every kind or description.

The Company may also write such workers' compensation insurance as may be incidental to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law including insurance described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended) and the kinds of insurance and reinsurance as defined in paragraph (c) of Section 4102 of the New York Insurance Law.

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The Company is primarily a broker market reinsurer writing business on both a treaty and facultative basis. The Company's treaty business is divided between pro-rata and excess of loss basis. It does not write direct business.

C. Reinsurance

Assumed Reinsurance

The Company is a reinsurer and only wrote an immaterial amount of direct business during the examination period. The Company assumes premiums from direct writers and other reinsurance companies. In 2008 and 2009, the Company assumed approximately 43% and 52% of its premiums from its affiliate, Esurance Insurance Company. The premiums assumed from Esurance Insurance Company were comprised of private passenger auto liability and auto physical damage business.

The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

Ceded Reinsurance

The Company indicated that its largest net aggregate amount insured in any one risk, excluding workers compensation, is \$9,334,867. The company has structured its 2009 ceded reinsurance program as follows:

<u>Type of Contract</u>	<u>Cession</u>
Quota share	75% of net property catastrophe and United States property risk excess.
Quota share	50% property pro-rata, property risk excess, property facultative on United States domestic property business. Any coverage under the 75% quota shares inures to the benefit of this treaty.

Type of ContractCession

Excess of loss catastrophe coverage

\$65 million excess of \$35 million earthquake coverage per occurrence, excluding the United States and Japan.

The quota share agreements were entered with the Company's affiliate, Sirius International Insurance Corporation, an unauthorized reinsurer. The earthquake risk is reinsured with unaffiliated reinsurers.

The Company had a fifty percent quota share cession on its casualty business in place, which was commuted on September 1, 2009.

It should be noted that the Company has no reinsurance coverage for the auto business assumed from its affiliate, Esurance Insurance Company.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

The reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively, and no exceptions were noted.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

The Company has a significant amount of reinsurance recoverables on ceded reinsurance contracts in run-off status. The Company reported approximately \$141,842,000 in reinsurance recoverables, in Schedule F, Part 3, from contracts with its current reinsurer Sirius International Insurance Corporation (“Sirius International”). The Company reported total reinsurance recoverables, at December 31, 2009, of approximately \$480,027,000, indicating that the Company had approximately \$338,185,000 in reinsurance recoverables on contracts in run-off status. This reflects the change in the Company’s premium writings and more significantly a shift from external reinsurers to affiliated reinsurers such as White Mountains Re Bermuda and Sirius International Insurance Corporation. Sirius International acquired White Mountains Re Bermuda and took over its contracts in 2009.

At December 31, 2009, the Company reported \$78,641,000 in reinsurance recoverables from Olympus Reinsurance Company, Ltd. (“Olympus”). There are several contracts with Olympus in run-off status. The Company had quota share retrocessional agreements with Olympus, a wholly owned subsidiary of Olympus Re Holdings Inc. Under these agreements, the Company ceded 75% of its property and marine excess of loss business and 50% of its property and marine quota share business to Olympus. Olympus is an unauthorized reinsurer.

The Company also reported significant reinsurance recoverables from London Life and General Reinsurance Company and London Life Casualty Reinsurance Company for the years 2001 and 2000. The reinsurance recoverables reported from these two companies at December 31, 2009, were approximately \$77,754,000.

The Company also had two ceded retroactive reinsurance agreements in place, one of which was entered into in 2001 and the other in 2006. For the 2001 agreement, the Company paid \$250,000,000 and as of December 31, 2009, the reserves transferred totaled \$319,183,000, resulting in a surplus gain of \$69,183,000. The 2006 agreement was related to the acquisition of Stockbridge Insurance Company (“SIC”, formerly Mutual Service Casualty Insurance Company), whereby SIC transferred substantially all of its assets and liabilities to the Company pursuant to a transfer and assumption agreement. Pursuant to the 2006 agreement, the Company transferred reserves totaling \$2,021,052 and paid no premium, resulting in a surplus gain of \$2,021,052. At December 31, 2009, the Company reported a contra-liability in the amount of \$111,590,230 and segregated surplus in the amount of \$71,204,052 related to the 2001 and 2006 agreements, pursuant to the provisions of SSAP 62.

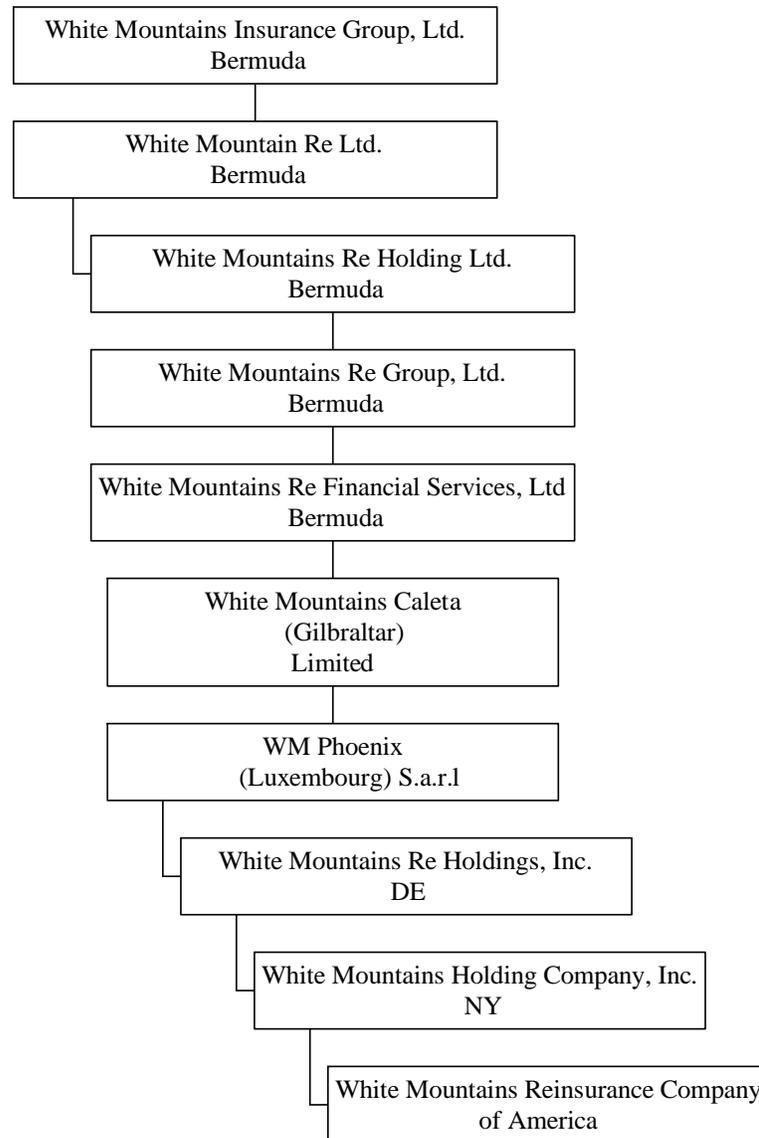
Subsequent to the examination date, the amount paid for the reserves transferred under the 2001 agreement had reached the maximum amount the reinsurer was obligated to pay and the Company was able to draw down on the Regulation 114 trust account it had set up with the initial premiums. As a result, the Company no longer had to report the surplus gain of \$69,183,000 as segregated surplus pursuant to SSAP 62.

D. Holding Company System

The Company is a member of the White Mountains Re Group, Ltd. The Company is a wholly-owned subsidiary of White Mountains Holding Company, Inc., a New York corporation, which is ultimately controlled by White Mountains Insurance Group, Ltd. of Bermuda.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abbreviated chart of the holding company system at December 31, 2009:



At December 31, 2009, the Company was party to the following agreements with other members of its holding company system:

Investment Management Agreement

The Company is a party to an investment management agreement with White Mountains Advisors LLC (“WMA”), whereby WMA would manage on a continuous basis the investment account of the Company according to the Company’s investment guidelines. On June 25, 2002, the Company filed the agreement with the Department, pursuant to Section 1505(d) of the New York

Insurance Law. The agreement was amended on October 25, 2006, and it was non-disapproved by the Department on November 15, 2006.

Tax Allocation Agreement

At December 31, 2009, the Company had a tax allocation agreement in place under which it filed a consolidated federal tax return with White Mountains Re Holdings, Inc. (Delaware), the Company's direct parent, White Mountains Holding Company, Inc. (New York), and White Mountains Specialty Underwriting, Inc.

The agreement was entered into on December 1, 2004. The agreement was amended on December 22, 2006. The amendment was non-disapproved by the Department. The amendment updated the parties to the agreement, which at the time of the amendment were White Mountains Re Holdings, Inc. (Delaware), White Mountains Holding Company, Inc.-NY (formerly Folksamerica Holding Company, Inc.), White Mountains Reinsurance Company of America (formerly Folksamerica Reinsurance Company), Sirius America Insurance Company (formerly Sirius Reinsurance Corporation), White Mountains Specialty Underwriting, Inc. (formerly Folksamerica Specialty Underwriting, Inc.), Commercial Casualty Insurance Company, and Stockbridge Insurance Company.

In 2008, Sirius America Insurance Company was removed from the consolidated tax filing; however, the tax allocation agreement was not updated or filed with the Department to reflect this change.

In 2009, Commercial Casualty Insurance Company was removed from the consolidated tax filing; however, the tax allocation agreement was not updated or filed with the Department to reflect this change.

On February 26, 2010, the Company amended the tax allocation agreement removing Sirius America Insurance Company and Commercial Casualty Insurance Company. The amendment also added Central National Insurance Company of Omaha which was acquired by White Mountains Re Holdings, Inc. (Delaware), the Company's ultimate United States parent. The Company failed to file the amendment with the Department.

It is recommended that the Company regularly update its tax allocation agreement as it adds and removes members.

Section 1505(d)(3) states in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period. . . (3) rendering of services on a regular or systematic basis. . .”

Department Circular Letter No. 33 (1979) states in part:

“Furthermore, notification to this Department should be given within 30 days of any amendment to or termination of a tax allocation agreement. . .”

It is further recommended that the Company obtain the Department’s non-disapproval before amending the tax allocation agreement, as required pursuant to Section 1505(d)(3) of the New York Insurance Law and Department Circular Letter No. 33 (1979).

Expense Allocation Agreement

The Company is a party to an expense allocation agreement with White Mountains Holding Company, Inc. and other affiliated entities. The agreement provides for sharing of personnel, office space, equipment and other expenses to conduct business. The agreement was non-disapproved by the Department on December 22, 2006. The agreement was amended on November 1, 2007 and the amendment was non-disapproved by the Department on November 6, 2007.

Subsequent to the examination date, the agreement was amended on February 26, 2010, however, the Company did not notify the Department as required by Section 1505(d)(3) of the New York Insurance Law.

It is recommended that the Company submit to the Department for non-disapproval, all agreements with other members of its holding company system involving the rendering of services on a regular or systematic basis, and any amendments thereto, at least thirty days prior to implementation, pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

Service, Resource Support, and Facilities Agreement

Effective November 6, 2007, the Company entered into a “Service, Resource Support, and Facilities Agreement” with White Mountains Re Services LLC, a Delaware Corporation, whereby

White Mountains Re Services LLC will provide various services, which include personnel, rent, data processing and others as stipulated in the agreement. The Department non-disapproved the agreement on November 6, 2007, pursuant to Section 1505(d) of New York Insurance Law. The agreement was amended effective January 1, 2010, which was non-disapproved by the Department on December 3, 2009.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	59%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	80%
Premiums in course of collection to surplus as regards policyholders	5%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$2,742,065,995	78.27%
Other underwriting expenses incurred	932,336,910	26.61
Net underwriting loss	<u>(170,864,179)</u>	<u>(4.88)</u>
Premiums earned	<u>\$3,503,538,726</u>	<u>100.00%</u>

F. Accounts and Records

i. Custodian Agreement

Examination review revealed that the Company's custodian agreement established with Bank of New York Mellon lacked the following safekeeping provisions recommended by the NAIC Financial Examiner Handbook:

1. In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the

value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced;

2. In the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent stating that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard liability;
3. If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;
4. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation, which the clearing corporation permits to be redistributed including reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control;
5. To the extent that certain information maintained by the custodian is relied upon by the insurance company in preparation of its annual statement and supporting schedules, the custodian agrees to maintain records sufficient to determine and verify such information;
6. The custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian;
7. The custodian shall secure and maintain insurance protection in an adequate amount.

It is recommended that Company establish a custodial agreement that contain the safeguards and provisions suggested by the NAIC Financial Condition Examiner Handbook.

ii. Deferred Tax Asset Reporting

The Company calculated its deferred tax asset following the more liberal provisions allowed to property and casualty companies with risk based capital scores above 300 as provided for in Statement of Statutory Accounting Principles 10R ('SSAP 10R'), paragraph 10e. The Company utilized the provision in paragraph 10e allowing it to admit deferred tax assets expected to be realized

within three years rather than one. The Company, however, failed to report the increased amount allowed under paragraph 10e as required by paragraph 10f which states in part:

“The increased amount... of admitted assets and statutory surplus resulting from the use, if applicable, of paragraph 10e to calculate admitted gross DTAs:

- i. Shall be separately reported in the Aggregate write-ins for gains and losses in surplus line of the summary of Operations, Statement of Income or Statement of Revenue, as applicable.
- ii. Shall be separately reported in the Aggregate write-in for special surplus funds line of liabilities, Surplus and Other Funds; Liabilities, Capital and Surplus or Liabilities and Surplus, as applicable.”

It is recommended that the Company report the changes in the deferred tax asset in accordance with SSAP 10R, paragraph 10f.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,539,359,729	\$ 0	\$1,539,359,729
Preferred stocks	26,950,420	0	26,950,420
Common stocks	61,202,735	0	61,202,735
Cash, cash equivalents and short-term investments	315,696,277	0	315,696,277
Other invested assets	151,860,376	0	151,860,376
Receivable for securities	1,108,185	0	1,108,185
Investment income due and accrued	13,382,850	0	13,382,850
Uncollected premiums and agents' balances in the course of collection	38,159,552	0	38,159,552
Deferred premiums, agents' balances and installments booked but deferred and not yet due	59,491,689	0	59,491,689
Accrued retrospective premiums	2,189,238	0	2,189,238
Amounts recoverable from reinsurers	21,665,444	0	21,665,444
Funds held by or deposited with reinsured companies	122,477,408	0	122,477,408
Current federal and foreign income tax recoverable and interest thereon	22,814,435	0	22,814,435
Net deferred tax asset	102,211,117	49,427,910	52,783,207
Electronic data processing equipment and software	907,147	0	907,147
Furniture and equipment, including health care delivery assets	50,708	50,708	0
Receivables from parent, subsidiaries and affiliates	7,894,740	0	7,894,740
Leasehold improvements	1,323,336	1,323,336	
Prepaid expenses	752,747	752,747	
Aggregate write-ins	<u>515,165</u>	<u>348,132</u>	<u>167,033</u>
Total assets	<u>\$2,490,013,298</u>	<u>\$51,902,833</u>	<u>\$2,438,110,465</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$1,286,091,801
Reinsurance payable on paid losses and loss adjustment expenses	48,162,608
Commissions payable, contingent commissions and other similar charges	15,392,092
Other expenses (excluding taxes, licenses and fees)	13,996,624
Unearned premiums	126,907,394
Ceded reinsurance premiums payable (net of ceding commissions)	29,673,184
Funds held by company under reinsurance treaties	183,476,165
Amounts withheld or retained by company for account of others	612,785
Provision for reinsurance	7,699,655
Payable to parent, subsidiaries and affiliates	68,760
Payable for securities	1,365,449
Loss portfolio transfer ceded	(111,590,230)
Accounts payable	702,803
Allowance for uncollectible accounts	<u>3,530,296</u>
 Total liabilities	 \$1,606,089,386

Surplus and Other Funds

Surplus gains from retroactive reinsurance	\$71,204,052
Common capital stock	5,000,003
Gross paid in and contributed surplus	767,210,931
Unassigned funds (surplus)	<u>(11,393,907)</u>
 Surplus as regards policyholders	 <u>832,021,079</u>
 Total liabilities surplus and other funds	 <u>\$2,438,110,465</u>

NOTE: The Internal Revenue Service has completed audits of the Company's 2004 and 2005 consolidated Federal Income Tax returns. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of IncomeUnderwriting Income

Premiums earned		\$3,503,538,726
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Deductions:

Losses and loss adjustment expenses incurred	\$2,742,065,995	
Other underwriting expenses incurred	<u>932,336,910</u>	

Total underwriting deductions		<u>3,674,402,905</u>
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Net underwriting gain or (loss)		(170,864,179)
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Investment Income

Net investment income earned	\$424,200,377	
Net realized capital gain	<u>5,356,576</u>	

Net investment gain or (loss)		429,556,953
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Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 281,755	
Foreign exchange gain/(loss)	(6,030,267)	
Interest on fund held for reinsurance	(21,542,087)	
Other miscellaneous income	<u>(9,486,998)</u>	

Total other income		<u>(36,777,597)</u>
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Net income before federal and foreign income taxes		\$221,915,177
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Federal and foreign income taxes incurred		<u>13,684,990</u>
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Net income		<u>\$208,230,187</u>
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C. Capital and Surplus Account

Surplus as regards policyholders increased \$171,617,460 during the five-year examination period January 1, 2005 through December 31, 2009, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2004			\$660,403,619
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$208,230,187		
Net unrealized capital gains or (losses)		\$5,075,117	
Change in net unrealized foreign exchange capital gain (loss)	8,282,858		
Change in net deferred income tax	33,881,339		
Change in non-admitted assets		12,827,675	
Change in provision for reinsurance		1,052,483	
Surplus adjustments paid in	14,989,236		
Dividends to stockholders		75,000,000	
Gain on the dissolution of C-F Ins. Co.	118,430		
Loss portfolio transfer	<u>70,685</u>	<u>0</u>	
Total gains and losses	<u>\$265,572,735</u>	<u>\$93,955,275</u>	
Net increase (decrease) in surplus			<u>171,617,460</u>
Surplus as regards policyholders per report on examination as of December 31, 2009			<u>\$832,021,079</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,286,091,801 is the same as reported by the Company as of December 31, 2009. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following recommendations (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
(i) <u>Trust Agreements</u> It is recommended that the Company amend the Imagine reinsurance agreement to comply with Department Regulation 114. The Company has complied with this recommendation.	12
It is recommended that the Company amend the Olympus Trust agreement to comply with Department Regulation 114. The Company has complied with this recommendation.	13
(ii) <u>Letters of Credit</u> It is recommended that the Company comply with Department Regulation 133 and include all the required conditions of Part 79.2 in its letters of credit. The Company has complied with this recommendation.	13
It is recommended that the Company be named as beneficiary in all its letters of credit. The Company has complied with this recommendation.	13
(iii) <u>Special Termination Provision</u> It is recommended that the Company comply with Section 1308 of the New York Insurance Law and remove all special termination provisions relating to the financial condition of the Company from future reinsurance contracts. The Company has complied with this recommendation.	13
B. <u>Holding Company</u>	
(i) <u>Tax Allocation Agreement</u> It is recommended that the Company fully comply with Department Circular Letter No. 33 (1979) and file any amendments to its tax allocation agreement thirty days prior to its implementation.	16

<u>ITEM</u>	<u>PAGE NO.</u>
	The Company has not complied with this recommendation. A similar comment is made in this report.
(ii)	<u>Relationship with Olympus Reinsurance Company, Ltd.</u> Comment that Olympus is a related party based upon the concept of control defined by Section 1501(a) of the New York Insurance Law. 18
	It is recommended that the Company notify the Department in writing of its intention to enter into certain transactions, such as reinsurance treaties or agreements, with Olympus at least thirty days prior to the transaction pursuant to the requirements of Section 1505(d) of the New York Insurance Law. 19
	The Company has complied with this recommendation.
C.	<u>Accounts and records</u>
(i)	<u>Federal Income Tax Recoverable</u> It is recommended that the Company comply with Circular Letter No. 15 (1975) and only admit refunds due from the United States Treasury that will be collectible within a brief period after the statement date. 20
	The Company has complied with this recommendation.
(ii)	<u>Inter-company Receivables</u> It is recommended that the company separate the debit and credit balances of the various affiliates and only offset those due to and from the same legal entity. 20
	The Company has complied with this recommendation.
	It is recommended that the Company age the receivable balance and not-admit those balances greater than 90 days past due. 20
	The Company has complied with this recommendation.
	The Company is in violation of Section 1505(d)(3) of the New York Insurance Law by failing to follow its filed service agreement regarding the settlement of its inter-company billings within 15 days following presentation of the billings for the last month of each such quarter. 21
	The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company</u>	
<u>Tax Allocation Agreement</u>	
It is recommended that the Company regularly update its tax allocation agreement as it adds and removes members.	13
It is further recommended that the Company obtain the Department's non-disapproval before amending the tax allocation agreement, as required pursuant to Section 1505(d)(3) of the New York Insurance Law and Department Circular Letter No. 33 (1979).	14
<u>Expense Allocation Agreement</u>	
It is recommended that the Company submit to the Department for non-disapproval, all agreements with other members of its holding company system involving the rendering of services on a regular or systematic basis, and any amendments thereto, at least thirty days prior to implementation, pursuant to the provisions of Section 1505(d) of the New York Insurance Law.	14
B. <u>Accounts and Records</u>	
<u>Custodian Agreement</u>	
It is recommended that the Company establish custodial agreements that contain the safeguards and provisions suggested by the NAIC Financial Condition Examiner Handbook.	16
<u>Deferred Tax Asset</u>	
It is recommended that the Company report the changes in the deferred tax asset in accordance with SSAP 10R, paragraph 10f.	17

Respectfully submitted,

_____/S/_____
Moses Egbon, CFE
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

MOSES EGBON, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/_____
Moses Egbon

Subscribed and sworn to before me
this _____ day of _____, 2011

Appointment No. 30585

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

*I, James J. Wrynn Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:*

Moses Egbon

as proper person to examine into the affairs of the

WHITE MOUNTAINS REINSURANCE COMPANY OF AMERICA

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 26th day of August, 2010



James J. Wrynn

JAMES J. WRYNN
Superintendent of Insurance