Report

of the

Examination of

OneBeacon Midwest Insurance Company

Canton, Massachusetts

As of December 31, 2006

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December 17, 2007

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Honorable Morris J. Chavez
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Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

ONEBEACON MIDWEST INSURANCE COMPANY
Canton, Massachusetts

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of OneBeacon Midwest Insurance Company (One Beacon Midwest or the company) was conducted in 2002 as of December 31, 2001. The current examination covered the intervening period ending December 31, 2006, and included a review of such 2007 transactions as deemed necessary to complete the examination. This examination was conducted with a concurrent association examination of the OneBeacon Insurance Group. The association examination was headed by the State of Pennsylvania, with the participation of many states.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1991 as Commercial Union Midwest Insurance Company. Operation began in 1992 and was primarily direct business in Wisconsin and Kansas along with an affiliated reinsurance pool participation, as a member of the CGU Insurance Group. The company subsequently became licensed in Connecticut, Georgia, Illinois, Indiana, Massachusetts, New York, North Carolina, Virginia, and Wyoming. White Mountains Insurance Group bought the United States property and casualty operations on June 1, 2001. The company changed its name to that currently used in 2001. In 2006, the company wrote direct premium in the following states, through the OneBeacon Insurance Group sales force:

Connecticut	$59,311,541	72%
Massachusetts	19,290,924	23
Georgia	1,262,386	2
Virginia	1,157,819	1
Wisconsin	52,994	0
All others	1,220,406	2
	$82,296,070	100%

For 2006, this business consisted of the direct premium written in the following principal lines of business:

Homeowner's Multiple Peril	$28,629,024	35%
Commercial Multiple Peril	19,135,866	23
Private Passenger Auto Liability	8,998,674	11
Auto Physical Damage	7,045,333	9
Commercial Auto Liability	5,983,537	7
All others	12,503,636	15
	$82,296,070	100%

The above business is 100% ceded to an intercompany reinsurance pool headed by OneBeacon Insurance Company, an upstream affiliate. The company currently assumes no business from the pool, nor does it assume business from or cede business to any non-affiliated companies.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members, all of whom are elected annually to serve a one-year term. Officers are elected at the annual shareholder meeting. Members of the company's board of directors are typically members of other boards of directors in the OneBeacon group. The board members are inside directors and receive no compensation in addition to their officer salary for serving on the board. The current board of directors consists of the following persons:

Name and Residence	Principal Occupation*	Member Since
Alex Archimedes Bridgewater, New Jersey	Senior Vice President	2003
Andrew Carnase Norfolk, Massachusetts	Senior Vice President	2003
Mark Dorcus Guilford, Connecticut	Senior Vice President	2005
Dana Hendershott Waterbury, Connecticut	Senior Vice President and Chief Administrative Officer	2007
Jennifer Lawrence Boston, Massachusetts	Senior Vice President, General Counsel and Director of Governmental Affairs	2007
Paul McDonough Wellesley, Massachusetts	Senior Vice President and Chief Financial Officer	2005
T. Michael Miller Chanhassen, Minnesota	Chairman of the Board, President and Chief Executive Officer	2005
Brian Poole Wrentham, Massachusetts	Senior Vice President and Chief Actuary	2006
Thomas Schmitt Duxbury, Massachusetts	Senior Vice President and Chief Human Resources Officer	2003

* The above occupations are within the OneBeacon organization.

As shown above, the examiner notes that no director serving at December 31, 2001, the as-of date for the prior examination, is still serving at December 17, 2007, the current examination date. This change in board membership is due in part to business plan changes. Directors move their employment to companies where their skills and experience are best suited within the holding company system. Business plan changes will be discussed in the "Current Examination Findings" section.

Officers of the Company

The officers serving at the time of this examination are as follows:

T. Michael Miller	Chairman of the Board, President and Chief Executive Officer
Alex Archimedes	Senior Vice President
Andrew Carnase	Senior Vice President
Michael Daly	Senior Vice President
Eugene Fazzie	Senior Vice President
Dana Hendershott	Senior Vice President and Chief Administrative Officer
Michael Keane	Senior Vice President
Jennifer Lawrence	Senior Vice President, General Counsel and Director of Governmental Affairs
Paul McDonough	Senior Vice President and Chief Financial Officer
Michael McSally	Senior Vice President
John Meuschke	Senior Vice President
Michael Natan	Senior Vice President and Chief Information Officer
Donald Nibouar	Senior Vice President
Brian Poole	Senior Vice President and Chief Actuary
Kevin Rehnberg	Senior Vice President
Thomas Schmitt	Senior Vice President and Chief Human Resources Officer
Philip Sibilia	Senior Vice President
Todd Mills	Vice President and Treasurer
Dennis Smith	Secretary
Todd Abalos	Assistant Secretary
Jane Freedman	Assistant Secretary
Joan Geddes	Assistant Secretary
Natalie Tull Greene	Assistant Secretary
Meredith Mangan	Assistant Secretary
Lanette Marsh	Assistant Secretary
Kenneth Paganini	Assistant Secretary
M. Fran O'Loughlin	Assistant Treasurer
Frederick Turcotte	Assistant Treasurer

The company pays no direct compensation, pursuant to the terms of a reinsurance pooling agreement. This agreement is further described in the "Reinsurance" section of this report.

Committees of the Board

The company's bylaws do not provide for any management by committee. Moreover, the company's board of directors has not appointed any such committee.

IV. AFFILIATED COMPANIES

OneBeacon Midwest is a member of a holding company system. The organizational chart below depicts the principal affiliates in the group. A brief description of these affiliates follows the organizational chart.

Organizational Chart*
As of December 31, 2006

White Mountains Insurance Group, Ltd., Bermuda

72.4%**

OneBeacon Insurance Group, LLC, Delaware

100%

OneBeacon Insurance Company, Pennsylvania

100%

Northern Assurance Company of America, Massachusetts

100%

OneBeacon Midwest Insurance Company, Wisconsin

* There are some intermediate companies not shown by the above organizational chart. The examination identified the above as those companies most pertinent to the OneBeacon Midwest operation.

** In 2006, White Mountains sold $27.6 million or 27.6% of the OneBeacon Insurance Group, LLC's common shares in an initial public offering.

White Mountains Insurance Group, Ltd.

White Mountains Insurance Group is an exempted Bermuda limited liability company whose principal businesses are conducted through its property and casualty insurance and reinsurance subsidiaries and affiliates. As of December 31, 2006, the CPA-audited financial statements included in the Form 10-K of the Securities Exchange Commission for White Mountains Insurance Group, Ltd., reported assets of $19.4 billion, liabilities of $14.4 billion, and common shareholders' equity of $5.0 billion. Operations for 2006 produced net income of $706.1 million.

The White Mountains' Other Operations segment includes a wholly owned investment management subsidiary, White Mountains Advisors, LLC. The Other Operations segment is not shown in the chart above. OneBeacon Midwest currently has an investment services agreement with White Mountains Advisors. This agreement is described in the "Agreements with Affiliates" section.

White Mountains Insurance Group also owns the Esurance companies, which are on-line, direct sales auto insurers.

OneBeacon Insurance Group, LLC

OneBeacon Insurance Group, LLC, is the holding company of OneBeacon Insurance Company and its subsidiaries, including OneBeacon Midwest. As of December 31, 2006, the audited financial statements of OneBeacon Insurance Group, LLC, reported assets of $5.5 billion, liabilities of $3.5 billion, and policyholders' surplus of $2 billion. Operations for 2006 produced net income of $373 million.

OneBeacon Insurance Company

OneBeacon Insurance Company is a property and casualty insurer and is the lead company within the intercompany pool. The group provides a range of specialty insurance products as well as a variety of segmented commercial and personal insurance products through primarily independent agencies. As of December 31, 2006, the audited financial statements of OneBeacon Insurance Company reported assets of $3,758,323,295, liabilities of $2,064,200,561, and policyholders' surplus of $1,694,122,734. Operations for 2006 produced net income of $197,832,189. An Association Examination was conducted for this company and the OneBeacon Insurance Group, coinciding with this examination.

Northern Assurance Company of America

The Northern Assurance Company of America is a property and casualty insurer and a direct parent of the company. As of December 31, 2006, the audited financial statements of Northern Assurance Company of America reported assets of $355,882,652, liabilities of $163,931,912, and policyholders' surplus of $191,950,740. Operations for 2006 produced net income of $14,472,168. An Association Examination was conducted for this company and the OneBeacon Insurance Group, coinciding with this examination.

Agreements with Affiliates

Administrative Services

All payments arising from those expenses associated with underwriting and other operating expenses are 100% ceded to a reinsurance pool headed by OneBeacon Insurance Company. This agreement is further described in the “Reinsurance” section of this report. OneBeacon Midwest’s retained expenses are only those associated with non-underwriting liabilities arising from federal income tax, real estate expenses, investment expenses, and shareholder dividends. There are currently no real estate expenses.

Investment Management Agreement

An asset management agreement calls for White Mountains Advisors, LLC, to undertake all investment operations of the company. White Mountains Advisors has full discretion and authority, without obtaining prior approval, to make all investment purchases, sales, and other pertinent investment decisions. Notwithstanding the foregoing, it is understood that OneBeacon Midwest shall have the ultimate and final authority over these investment decisions and the investment policies used in this direction. Investments are held in one or more banks meeting the requirements of Wisconsin law. White Mountains Advisors is paid a quarterly fee, based on the amount of invested assets under its management.

Tax Allocation Agreement

The company is party to an affiliated tax allocation agreement. Under this agreement, tax is allocated based upon amounts derived from companies computing tax on an individual basis.

Reinsurance Pooling

The company is part of a reinsurance pool with affiliates. This is accomplished through two agreements, both of which are described in the following “Reinsurance” section.

V. REINSURANCE

The company is part of a reinsurance pool with affiliates. The affiliated companies are part of the holding company subsystem controlled by OneBeacon Insurance Group, LLC. OneBeacon Insurance Company is the lead company of the pool. Under the first of the pooling agreements, each participating company cedes 100% of its business to the OneBeacon Insurance Company. In the second of the pooling agreements, and after the OneBeacon Insurance Company assumes and cedes external reinsurance, coverages are ceded back to pool participants. The external reinsurance is recorded only by OneBeacon Insurance Company.

As a result of this procedure, OneBeacon Insurance Company keeps 100% of the provision for unauthorized reinsurance. Pooling agreements included proper insolvency provisions.

OneBeacon Midwest's current pooling participation percentage is zero. The remaining OneBeacon Insurance Companies pooling participations are as follows:

OneBeacon Insurance Company	54.0%
OneBeacon America Insurance Company	16.4
Pennsylvania General Insurance Company	10.0
Homeland Insurance Company of New York	10.0
The Northern Assurance Company of America	5.0
The Employers' Fire Insurance Company	1.5
PG Insurance Company	1.5
AutoOne Insurance Company	1.0
Atlantic Specialty Insurance Company	0.6
Total	100.0%

In the course of reviewing the agreements, the examination noted that the cessions include losses and loss adjustment expenses and all underwriting expenses and other expenses. Therefore, under the terms of the agreements, all of the company's underwriting and other insurance operating expenses flow to the pool. In effect, this reinsurance pooling arrangement also acts as an administrative cost-sharing agreement.

Omitted from this are non-underwriting liabilities arising from federal income tax, real estate expenses, investment expenses, and dividends to the company's shareholder, which are discussed above.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2006, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

OneBeacon Midwest Insurance Company
Assets
As of December 31, 2006

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$30,594,007	$	$30,594,007
Preferred stocks	3,445,000		3,445,000
Cash and short-term investments	7,410,664		7,410,664
Receivables for securities	57,564		57,564
Investment income due and accrued	264,824		264,824
Net deferred tax asset	99,179	65,192	33,987
Guaranty funds receivable or on deposit	2,994	0	2,994
Total Assets	$41,874,232	$65,192	$41,809,040

Liabilities, Surplus and Other Funds
As of December 31, 2006

Other expenses (excluding taxes, licenses, and fees)		$ 32,583
Current federal and foreign income taxes		97,000
Payable to parent, subsidiaries, and affiliates		8,489
Other liabilities		173
Total liabilities		138,245
Common capital stock	$ 2,500,000	
Gross paid in and contributed surplus	32,665,000	
Unassigned funds (surplus)	6,505,795	
Surplus as regards policyholders		41,670,795
Total Liabilities and Surplus		$41,809,040

OneBeacon Midwest Insurance Company
Summary of Operations
For the Year 2006

Investment Income		
Net investment income earned	$1,878,934	
Net realized capital (loss)	(137,121)	
Net investment gain		$1,741,813
Federal and foreign income taxes incurred		620,353
Net Income		$1,121,460

OneBeacon Midwest Insurance Company
Cash Flow
For the Year 2006

Premiums collected net of reinsurance			$2,128,775
Commissions, expenses paid, and aggregate write-ins for deductions		$ 8,922	
Federal and foreign income taxes paid (recovered)		604,353	
Total deductions			613,275
Net cash from operations			1,515,500
Proceeds from investments sold, matured, or repaid:			
Bonds	$19,219,051		
Net gains on cash, cash equivalents, and short-term investments	700		
Total investment proceeds		19,219,751	
Cost of investments acquired (long-term only):			
Bonds	17,247,429		
Miscellaneous applications	57,564		
Total investments acquired		17,304,993	
Net cash from investments			1,914,758
Other cash provided		7,170	
Net cash from miscellaneous sources			7,170
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			3,437,428
Cash, cash equivalents, and short-term investments:			
Beginning of year			3,973,236
End of Year			$7,410,664

OneBeacon Midwest Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2006

Surplus as regards policyholders		$41,670,795
2006 direct premium written*	$82,296,070	
Factor	15%	
Compulsory surplus		12,344,410
Compulsory surplus excess		$29,326,385
Surplus as regards policyholders (from above)		$41,670,795
Security surplus: (140% of compulsory surplus)		17,282,174
Security surplus excess		$24,388,621

* Under a current Wisconsin stipulation and order, the company's current compulsory surplus requirement is the greater of: a) 33 1/3 of net premium, b) 15% of direct premium, or c) $3,000,000.

OneBeacon Midwest Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2006

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2006	2005	2004	2003	2002
Surplus, beginning of year	$40,593,297	$39,756,191	$38,956,814	$41,317,606	$38,944,377
Net income	1,121,460	736,528	2,643,931	1,851,508	2,823,477
Change in net unrealized capital gains/losses	(78,088)	195,394		9,703	
Change in net unrealized foreign exchange capital gains/losses	139	(63,522)	63,482		
Change in net deferred income tax	88,419	(45,740)	(752,263)	(202,610)	278,639
Change in nonadmitted assets	(54,432)	14,446	644,227	80,607	(444,744)
Dividends to stockholders			(1,800,000)	(4,100,000)	
Prior period adjustment					(284,143)
Surplus, End of Year	$41,670,795	$40,593,297	$39,756,191	$38,956,814	$41,317,606

OneBeacon Midwest Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2006

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2006	2005	2004	2003	2002
1	Gross Premium to Surplus	197%	218%	421%	421%	465%
2	Net Premium to Surplus	0	0	0	13	16
3	Change in Net Premiums Written	0	0	-99*	-23	20
4	Surplus Aid to Surplus	0	0	0	0	0
5	Two-Year Overall Operating Ratio	0	0	63	78	106*
6	Investment Yield	4.7	3.5	3.6*	3.3*	3.8*
7	Gross Change in Surplus	3	2	0	-6	3
8	Net Change in Adjusted Surplus (established in 2005)	3	2			
9	Liabilities to Liquid Assets	0	0	2	26	30
10	Agents' Balances to Surplus	0	0	0	1	0
11	One-Year Reserve Development to Surplus	0	0	0	1	1
12	Two-Year Reserve Development to Surplus	0	0	0	3	-6
13	Estimated Current Reserve Deficiency to Surplus	0	0	0	3	1

Ratio No. 3 measures the change in net premium written. This ratio was exceptional in 2004 due to the reduction in the company's participation in the intercompany reinsurance pooling. This participation is currently 0%.

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional result in 2002 is due to some unusually high other underwriting expenses. Now that the company's intercompany pooling participation is 0%, the company reports 0% for this ratio.

Ratio No. 6 measures the company's investment yield. The exceptional results in 2002, 2003, and 2004 were due to the company's investment, primarily in higher-quality, lower-yield bond investments. In 2004, the NAIC lowered the exceptional value amount for this ratio from 4.5% to 3%. The company experienced an investment yield ratio exceeding 3% in each of the years under examination.

Many of the IRIS ratios are zeros, due to intercompany reinsurance pooling.

Growth of OneBeacon Midwest Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2006	$41,809,040	$ 138,245	$41,670,795	$1,121,460
2005	40,760,654	167,357	40,593,297	736,528
2004	40,380,913	624,722	39,756,191	2,643,931
2003	53,219,630	14,262,816	38,956,814	1,851,508
2002	59,983,457	18,665,851	41,317,606	2,823,477
2001	59,972,716	21,028,339	38,944,377	739,728

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2006	$ 82,296,070	$ 0	$ 0	0.0%	0.0%	0.0%
2005	88,502,830	0	0	0.0	0.0	0.0
2004	167,346,663	(2,443,698)	0	0.0	0.0	0.0
2003	164,092,736	5,139,201	5,701,973	73.5	33.0	106.5
2002	192,106,025	6,712,789	7,920,375	77.6	32.3	109.9
2001	226,216,878	5,607,361	7,065,080	103.2	43.3	146.5

Gross premium written decreased in 2005 due to the transfer of direct business to other companies within the OneBeacon Insurance Group. The reduction in liabilities, elimination of net premium written, and the removal of loss experience in 2004 is due to a change in the intercompany pooling agreement. The company's current participation percentage was reduced to 0%.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2006, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Agents Listing—It is recommended that before the company begins to solicit business it carefully review and compare the Annual Renewal Billing sent by the commissioner to the company's agent database, promptly initiate an investigation into the reason(s) an agent either does or does not appear on the Annual Renewal Billing when the company shows an active agent appointed to represent the company or appears on the Annual Renewal Billing when the company does not show the agent as appointed to represent the company and take the appropriate action to rectify the situation, to ensure compliance with s. Ins 6.57 (1) and (2), Wis. Adm. Code.

   Action—The company complied with this recommendation.

2. Reinsurance Recoverable on Loss and Loss Adjusting Expense Payments—It is recommended that the company reconcile its reinsurance recoverable balances and write-off any balances that are determined to be unsubstantiated.

   Action—The company complied with this recommendation.

3. Receivable For Securities—It is recommended that the company report interest receivable in Investment Income Due and Accrued according to the NAIC Accounting and Procedures Manual.

   Action—The company complied with this recommendation.

4. Receivable From Parent, Subsidiaries or Affiliates—It is recommended that the company settle affiliated agreements according to the terms of the agreement and at least quarterly according to the agreements filed with the Office of the Commissioner of Insurance.

   Action—The company complied with this recommendation.

5. Loss Reserve and Loss Adjusting Expenses Reserves—It is recommended that the company ensure that all records are retained pursuant to s. Ins 6.80 (4), Wis. Adm. Code.

   Action—The company complied with this recommendation.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Agents Listing

The company currently has no agents listed in Wisconsin. Section Ins 6.595 (2) (g), Wis. Adm. Code, exempts licensure of agents who sell commercial property and casualty business to insureds with multistate risks, provided these agents are licensed in the state in which the commercial policy was sold. This is the current situation for the company.

Wisconsin Business

The company reported $52,994 of direct business written in Wisconsin. After further inquiry, it was determined that this premium is primarily due to an adjustment the company makes in its reporting process. When preparing Schedule T and all its related pages, if there are premiums that have been identified as being received from policies for jurisdictions where the risk is located but in which the company is not licensed, the premiums are transferred for reporting purposes from the risk state to the state of Wisconsin. For example, in 2006 the company received $42,000 in premiums attributable to risks in the state of Oregon. Since the company is not licensed in Oregon, the premium is reported as Wisconsin premium. Based on information provided by the company, of the direct written premium reflected in Schedule T as being Wisconsin premium, all but $10 was from other states in which the company was not licensed.

The company's methodology is not the proper way to report premium in Schedule T. From the annual statement instructions, all U.S. business must be allocated by state regardless of licensing status. The company will at times report premium in states where the company is not licensed. In these instances, the company is responsible for complying with pertinent state laws, including surplus lines insurance requirements. Moreover, the company is responsible for paying the appropriate surplus lines or any other tax to these states. It is recommended that the company report the Schedule T premium written in the state where the risk is located, pursuant to annual statement instructions. It is further recommended that the company follow all pertinent states' surplus lines or other reporting requirements and pay the appropriate surplus lines or other tax to the respective states. So doing, it is also recommended that within 90 days of this report's adoption, the company submit for this office's review updated company procedures for proper Schedule T and pertinent state tax reporting.

Wisconsin Licensure

The company is the only one of many companies in the OneBeacon Insurance Group with a Wisconsin certificate of authority. The examiner sought an explanation for maintaining this company's Wisconsin domicile when virtually none of the company's business relates to Wisconsin risks and there are no operations in Wisconsin. In response, the company computed total 2006 premium taxes for the company on both a Wisconsin and on a Pennsylvania basis, as follows:

2006 OneBeacon Midwest Ins. Co. total premium tax, Pennsylvania domicile:	$1,726,315
2006 OneBeacon Midwest Ins. Co. total premium tax, Wisconsin domicile:	1,573,925
Premium tax savings for Wisconsin rather than Pennsylvania domicile:	$ 152,390

Pennsylvania was selected for the above analysis because Pennsylvania is the domicile for OneBeacon Insurance Company, the parent company for the OneBeacon Insurance Group. The foregoing observation gives a strong indication that tax savings is the principal purpose for the maintenance of the Wisconsin domicile.

VIII. CONCLUSION

The company's intercompany reinsurance pooling participation was reduced to 0% in 2004. Gross premium written declined from $226 million in 2001 to $82 million in 2006, or 64%, due to the transfer of direct business to other companies within the OneBeacon Insurance Group. The company reported increases to surplus in four out the last five years and net income in each of the years under examination.

Schedule T indicates that 72% of direct business is written in Connecticut. However, the examiner found that Schedule T is not prepared in accordance with annual statement instructions. There is a recommendation that the company report premium in the state where the risk is located, regardless of license status. The company needs to begin compliance with surplus lines requirements in various jurisdictions, particularly the remittance of surplus lines taxes.

Based on information provided by the company, the examination found that OneBeacon Midwest wrote only $10 of direct business in the state of Wisconsin in 2006. The principal purpose for maintaining a Wisconsin domicile is premium tax savings.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Wisconsin Business—It is recommended that the company report the Schedule T premium written in the state where the risk is located, pursuant to annual statement instructions. It is further recommended that the company follow all pertinent states' surplus lines or other reporting requirements and pay the appropriate surplus lines or other tax to the respective states. So doing, it is also recommended that within 90 days of this report's adoption, the company submit for this office's review updated company procedures for proper Schedule T and pertinent state tax reporting.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

The undersigned, being a representative of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Joe Hilgendorf
Examiner-in-Charge