

# Best's Rating Report



## OneBeacon INSURANCE GROUP

### ONEBEACON INSURANCE GROUP

Atlantic Specialty Ins Co

A

Homeland Insurance Company DE

A

Homeland Insurance Company NY

A

OBI American Insurance Company

A

OBI National Insurance Company

A



### Associated With:

**White Mountains Insurance Group Ltd**

**ONEBEACON INSURANCE GROUP**

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AMB#: 018458

Associated Ultimate Parent#: 058167

### RATING RATIONALE

**Rating Rationale:** The ratings apply to Atlantic Specialty Insurance Company (ASIC) and its four reinsurance affiliates: Homeland Insurance Company of New York; Homeland Insurance Company of Dela-

ware; OBI America Insurance Company and OBI National Insurance Company. The five companies comprise the OneBeacon Insurance Group (the group).

The ratings reflect the group's sound level of risk-adjusted capitalization, solid earnings (on average) derived through periods of favorable underwriting and operating performance, and the financial flexibility of the group's parent, OneBeacon Insurance Group Ltd. (OneBeacon Ltd. [NYSE: OB]), in which White Mountains Insurance Group, Ltd. (White Mountains; NYSE: WTM), owns a majority interest. These positive rating factors are partially offset by adverse development of loss reserves, including reserve actions recorded in 2014 related to the group's ongoing business for several recent accident years; the payment of significant shareholder dividends, which has constrained growth in surplus; and a somewhat elevated level of equity invest-

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ments which, while well-managed, adds volatility to the group's earnings and balance sheet. Despite these concerns, the outlooks reflect A.M. Best's expectation that the group will continue to generate favorable operating results through stabilized underwriting performance, steady investment income and capitalization which will be maintained at levels fully supportive of the ratings.

The group's operating results have benefited from disciplined underwriting, strong claims management processes and management's ability to navigate its unique specialty niches. Moreover, the group is afforded additional financial flexibility by OneBeacon Ltd., which maintains significant cash, short-term investments, fixed income investments and equity securities at the holding company level. OneBeacon Ltd.'s financial leverage remains at a moderate level with adjusted debt-to-tangible capital of approximately 21% as of June 30, 2016.

While the ratings for the members of the group are stable, future positive rating actions may result if OneBeacon's underwriting and operating results outperform its peers for an extended period of time. However, negative rating actions could result if operating performance falls markedly short of A.M. Best's expectations or if there is a material weakening of risk-adjusted capitalization.

## RATING UNIT MEMBERS

| AMB#   | Company                        | (AMB# 018458): | Best's<br>FSR |
|--------|--------------------------------|----------------|---------------|
| 012666 | Atlantic Specialty Ins Co      |                | A             |
| 014398 | Homeland Insurance Company DE  |                | A             |
| 010604 | Homeland Insurance Company NY  |                | A             |
| 022388 | OBI America Insurance Company  |                | A             |
| 014397 | OBI National Insurance Company |                | A             |

## KEY FINANCIAL INDICATORS (\$000)

| Year | Net<br>Premiums<br>Written | Pre-tax<br>Operating<br>Income | Total<br>Admitted<br>Assets | Policy-<br>holders'<br>Surplus | Comb.<br>Ratio |
|------|----------------------------|--------------------------------|-----------------------------|--------------------------------|----------------|
| 2011 | 132,273                    | 6,094                          | 457,462                     | 243,437                        | 101.9          |
| 2012 | 874,724                    | -15,071                        | 2,366,282                   | 831,420                        | 83.6           |
| 2013 | 969,218                    | 152,767                        | 2,265,318                   | 665,807                        | 91.8           |
| 2014 | 1,109,010                  | -55,284                        | 2,554,886                   | 721,515                        | 104.9          |
| 2015 | 590,114                    | 22,178                         | 2,341,115                   | 622,335                        | 101.4          |

(\* Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

In 2012, OneBeacon announced that it entered into a transaction to sell its run-off business to a subsidiary of Armour Group Holdings, Limited ("Armour"). As part of the sale, all run-off business of the group was transferred to the legal entities that were being sold, which included OneBeacon Insurance Company ("OBIC"), which was previously the lead company in the group. At the same time, all on-going business of the group was moved to the four legal entities that, at that time, comprised the group, including ASIC, which assumes all direct business of the other group members. This transaction was completed in 2014.

The financial results for years prior to 2012 include business of the current members of the group and Essentia Insurance Company. Business written by the three entities that were sold to Armour is not included in the results presented herein. There was no significant change in the on-going business of the group during 2012. The changes that appear in the group's financial results for 2012 reflect the movement of on-going business into the legal entities that would remain in the group and the transfer of the run-off business to the legal entities that were to be sold.

The financial results represented throughout this report do not include those of Split Rock Insurance Ltd, an affiliated Bermuda-based reinsurance company. However, the risk-adjusted capitalization and analysis considers the underwriting risks of Split Rock due to the significant reinsurance relationship between the group and Split Rock.

## BUSINESS PROFILE

OneBeacon Insurance Group, Ltd. ("OneBeacon, Ltd") is a Bermuda-domiciled holding company that is publicly traded on the New York Stock Exchange under the symbol "OB." OneBeacon Ltd.'s underwriting companies ("OneBeacon" or the "group") offer a range of specialty insurance products sold through independent agencies, regional and national brokers, wholesalers and managing general agencies. Each business is managed by an experienced team of specialty insurance professionals focused on a specific customer group, industry segment, or through distinct product tailored coverages and services. OneBeacon offers a range of specialty insurance products with solutions that target businesses including group accident; architects and engineers; commercial surety; entertainment; environmental; excess property; financial institutions; financial services; healthcare; management liability; ocean and inland marine; programs; public entities; technology; and tuition refund.

OneBeacon was acquired by White Mountains Insurance Group, Ltd. ("White Mountains") from Aviva plc ("Aviva") in 2001. In 2006, White Mountains completed an initial public offering of OneBeacon Ltd.'s common shares and, as of December 31, 2015, White Mountains owned approximately 75.5% of OneBeacon Ltd.'s outstanding common shares. The group's operating companies are primarily U.S.-based property and casualty insurance writers. In recent years, the group has focused its business strategy on its specialty lines business through a series of asset sales and other divestitures.

The group's specialty lines business is focused on highly customized and unique segments and products. For example, ocean and inland marine coverage is offered through International Marine Underwriters and includes a full range of solutions, including coverage at the primary and excess levels. Tuition reimbursement products are sold through A.W.G. Dewar ("Dewar"). Dewar's products protect both schools and parents from the financial consequences of a student's withdrawal or dismissal from school. Technology delivers all-lines underwriting solutions for the technology, life science and medical technology, and telecommunications industries. Healthcare provides professional liability coverages and other specialized coverages in-

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cluding provider excess insurance and excess of loss or HMO reinsurance. Accident focuses on analyzing and developing unique accident solutions for the transportation, non-subscription and corporate accident marketplace, while also developing specialized accident insurance programs.

In October 2012, OneBeacon Insurance Group, LLC (“OneBeacon LCC”) announced that it had entered into a definitive agreement to sell its run-off business to Armour Group Holdings Limited (“Armour”). OneBeacon LLC transferred to Armour certain legal entities containing the assets, liabilities and capital supporting the run-off business. The transaction closed in December 2014.

In 2013, the group formed a new wholly-owned subsidiary, Split Rock Insurance, Ltd. (Split Rock), a Bermuda based reinsurance company, which primarily reinsures certain risks of affiliated entities.

| Product Line     | Reinsurance<br>—Prem Ceded— |       | —NPW—   |       | Business<br>Retention<br>(%) |
|------------------|-----------------------------|-------|---------|-------|------------------------------|
|                  | (\$000)                     | (%)   | (\$000) | (%)   |                              |
| Group A & H      | 77,502                      | 10.6  | 73,753  | 12.5  | 48.8                         |
| Oth Liab CM      | 84,098                      | 11.5  | 64,736  | 11.0  | 43.5                         |
| Oth Liab Occur   | 70,907                      | 9.7   | 64,511  | 10.9  | 47.6                         |
| Ocean Marine     | 62,693                      | 8.6   | 64,312  | 10.9  | 50.6                         |
| Com'l MultiPeril | 63,529                      | 8.7   | 56,123  | 9.5   | 46.9                         |
| Comm'l Auto Liab | 37,779                      | 5.2   | 54,170  | 9.2   | 58.9                         |
| Workers' Comp    | 44,636                      | 6.1   | 43,013  | 7.3   | 49.1                         |
| Med Prof Liab CM | 45,597                      | 6.3   | 36,420  | 6.2   | 44.4                         |
| Inland Marine    | 46,450                      | 6.4   | 33,805  | 5.7   | 42.1                         |
| Surety           | 25,510                      | 3.5   | 30,722  | 5.2   | 54.6                         |
| Credit           | 29,026                      | 4.0   | 29,975  | 5.1   | 50.8                         |
| Auto Physical    | 14,761                      | 2.0   | 18,973  | 3.2   | 56.2                         |
| Fire             | 24,644                      | 3.4   | 6,551   | 1.1   | 21.0                         |
| Allied Lines     | 90,947                      | 12.5  | 1,735   | 0.3   | 1.9                          |
| All Other        | 10,542                      | 1.4   | 11,317  | 1.9   | 51.8                         |
| Total            | 728,622                     | 100.0 | 590,114 | 100.0 | 44.7                         |

## 2015 BY-LINE BUSINESS (\$000)

| Product Line     | —DPW—     |       | Reinsurance<br>—Prem Assumed— |       |
|------------------|-----------|-------|-------------------------------|-------|
|                  | (\$000)   | (%)   | (\$000)                       | (%)   |
| Group A & H      | 126,663   | 9.9   | 24,592                        | 63.4  |
| Oth Liab CM      | 148,365   | 11.6  | 470                           | 1.2   |
| Oth Liab Occur   | 135,101   | 10.6  | 317                           | 0.8   |
| Ocean Marine     | 123,512   | 9.6   | 3,493                         | 9.0   |
| Com'l MultiPeril | 119,452   | 9.3   | 200                           | 0.5   |
| Comm'l Auto Liab | 91,681    | 7.2   | 267                           | 0.7   |
| Workers' Comp    | 84,781    | 6.6   | 2,868                         | 7.4   |
| Med Prof Liab CM | 78,932    | 6.2   | 3,085                         | 7.9   |
| Inland Marine    | 80,261    | 6.3   | -6                            | 0.0   |
| Surety           | 53,836    | 4.2   | 2,396                         | 6.2   |
| Credit           | 57,945    | 4.5   | 1,056                         | 2.7   |
| Auto Physical    | 33,697    | 2.6   | 37                            | 0.1   |
| Fire             | 31,186    | 2.4   | 9                             | 0.0   |
| Allied Lines     | 92,665    | 7.2   | 18                            | 0.0   |
| All Other        | 21,842    | 1.7   | 17                            | 0.0   |
| Total            | 1,279,918 | 100.0 | 38,818                        | 100.0 |

## HISTORY

OneBeacon's history in the United States dates back to the 1800s. Following the June 2, 1998, worldwide merger between Commercial Union plc and General Accident plc, the former Commercial Union and General Accident companies in the U.S. became owned by one U.S. holding company, CGU Corp.

On June 1, 2001, White Mountains purchased CGU Corp. for \$2.1 billion and, subsequently, created OneBeacon Insurance Group. OneBeacon Ltd. executed an initial public offering in November 2006. Prior to the offering, a new Bermuda holding company (OneBeacon Ltd) was formed, a portion of whose common shares were offered and sold in the IPO.

White Mountains retained control of OneBeacon Ltd. subsequent to the IPO through ownership of the Class B common shares, which comprised approximately 72% of the common interest at the time of the IPO, with the remaining 28% owned by outside (public) shareholders. White Mountains currently maintains an ownership interest of approximately 76.1% in OneBeacon Ltd.

Effective December 23, 2014, OBIC, OneBeacon America Insurance Company and Employers' Fire Insurance Company, which were previously members of this group, were sold to Trebuchet US Holdings, Inc., a subsidiary of Armour.

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## Consolidated Balance Sheet Admitted Assets (\$000)

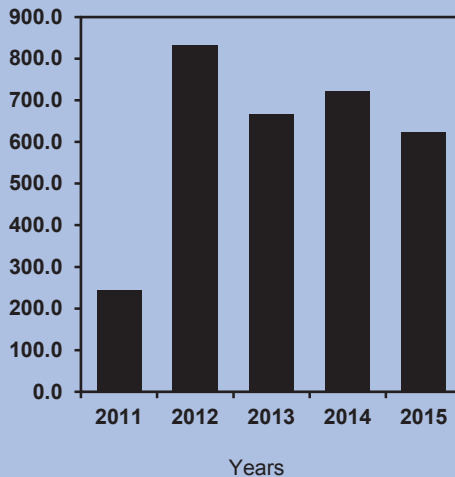
|                                  | YE 2015        | %          |
|----------------------------------|----------------|------------|
| Bonds .....                      | \$1,428,802    | 61.0       |
| Preferred stock .....            | 82,720         | 3.5        |
| Common stock .....               | 190,881        | 8.2        |
| Cash and short-term invest ..... | 88,168         | 3.8        |
| Other non-affil inv asset .....  | 112,437        | 4.8        |
| Investments in affiliates .....  | <u>94,939</u>  | <u>4.1</u> |
| Total invested assets .....      | \$1,997,947    | 85.3       |
| Premium balances .....           | 218,782        | 9.3        |
| Accrued interest .....           | 8,378          | 0.4        |
| All other assets .....           | <u>116,008</u> | <u>5.0</u> |
| Total assets .....               | \$2,341,115    | 100.0      |

## Liabilities & Surplus (\$000)

|                                    |                   |             |
|------------------------------------|-------------------|-------------|
| Loss & LAE reserves .....          | \$ 942,825        | 40.3        |
| Unearned premiums .....            | 530,792           | 22.7        |
| Conditional reserve funds .....    | 1,218             | 0.1         |
| All other liabilities .....        | <u>243,944</u>    | <u>10.4</u> |
| Total liabilities .....            | \$1,718,780       | 73.4        |
| Capital & assigned surplus .....   | 541,547           | 23.1        |
| Unassigned surplus .....           | <u>80,789</u>     | <u>3.5</u>  |
| Total policyholders' surplus ..... | \$ <u>622,335</u> | <u>26.6</u> |
| Total liabilities & surplus .....  | \$2,341,115       | 100.0       |

## ONEBEACON INSURANCE GROUP

### Policyholders' Surplus



in millions  
of dollars

## FINANCIAL SUMMARY (\$000) as of YE 2015

|                               |              |
|-------------------------------|--------------|
| Policyholders' Surplus .....  | \$ 622,335   |
| Direct Premiums Written ..... | \$ 1,279,918 |
| Combined Ratio .....          | 101.4        |
| Net Underwriting Income ..... | \$ -5,904    |
| Net Investment Income .....   | \$ 31,494    |

# Best's Rating Report

## Why is this *Best's*<sup>®</sup> Rating Report important to you?

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899.

A Best's Financial Strength Rating (FSR) is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is **not a recommendation** to purchase, hold or terminate any insurance

policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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