



Berkshire Hathaway
Specialty Insurance®

Opportunity Is Not A Lengthy Visitor

DECEMBER 28, 2019

Team,

Several weeks ago I had the opportunity and the pleasure of being a proud father watching my thirteen year old son perform in his school play, “Into the Woods”. “Into the Woods” is a musical that intertwines the plots of several fairy tales, exploring the consequences of the characters’ wishes and quests. The main characters are taken from “Little Red Riding Hood”, “Jack and the Beanstalk”, “Rapunzel”, and “Cinderella”, as well as several other fairy tales. At some point during the play, the young girl playing Cinderella spoke something that struck me as very interesting and true – it was, “opportunity is not a lengthy visitor”, and what it means is, opportunities don’t last long, implying that opportunities need to be realized quickly when they arise. It is a proverb that I think has broad applicability to the opportunity we have at BHSI - past, present, and future - and is the chosen central theme of my year end note to all of you. I hope you’ll read on.

SETTING THE STAGE

Six and a half years ago when we launched BHSI, we did so with a broad and simple mandate – build the finest global property, casualty and specialty lines insurance company in the world. We were told we could build the business anywhere in the world, enter any customer market segment, and offer virtually any products and services, as long as we felt and could demonstrate that we could produce an underwriting profit. We were afforded the opportunity to build BHSI with the backing and support of Berkshire Hathaway, an organization with substantial financial resources, a long term focus and, importantly, an organization that knows and values the property, casualty, and specialty lines insurance business. No small opportunity.

We’ve done much to capitalize on the opportunity. We’ve built an organization with a global reach that has a physical presence in fourteen countries and jurisdictions, operates out of thirty offices and numerous remote locations, and has the ability to satisfy the needs of multi-national customers in upwards of two hundred locations. We’ve assembled a team of 926 talented professionals that rises to 1728 when you include our teammates at Xceedance – people with both great capabilities and strong character. We’ve developed a wide range of products and services that allow us to satisfy substantially all of the needs of our customers and broker partners, including establishing an approach to claims handling that puts our claims proposition at the center of our product offerings. We’ve created a robust and dynamic operational and support infrastructure that includes our finance, technology, operations, human resources, legal and compliance, actuarial, customer and broker engagement, catastrophe engineering and analytics, risk engineering, and marketing and communications capabilities and offerings. Importantly, sitting across all that we’ve built is a globally established and practiced set of core values and culture that serve as the foundation of BHSI and bind us together as a unified global team. No small undertaking.

Our efforts to date have resulted in us producing close to USD \$10 billion of premium cumulatively since we started and a business that has a compound annual growth rate of 70%. We’ve executed well against our plan to produce a market leading expense ratio, and as a result we have a global general operating expense ratio that is at worst equal to and most often better than our competitors, and one that continues to improve. We’ve generated approximately USD \$4.0 billion of float for Berkshire Hathaway with a compound annual growth rate of 88%, and by doing so have contributed to the group’s ability to continue to build and invest in more opportunities. We turned an underwriting profit on an inception to date basis fourteen months after launching the business, sustained that position for multiple quarters thereafter, and in more recent quarters, with elevated levels of natural catastrophe activity in 2017 and 2018, coupled with our appropriately measured recognition of profit in longer tail lines of business, and a generally challenging underwriting environment, have seen variability in our loss ratio – we’re an early stage business, so time will tell how well we’ve done navigating the market. No small achievement, but again, time will tell.

A MARKET IN TRANSITION – FROM BAD TO BETTER

What a difference a year makes.

At this time last year, with the exception of our businesses in Australia and New Zealand and a few discrete areas in other parts of the world, we were not experiencing any meaningful positive change in the environments in which we compete – generally, rates were inadequate, terms and conditions broad, and the competition fierce – despite the industry experiencing significantly elevated levels of natural catastrophe activity globally, a rapidly deteriorating liability landscape (principally in the U.S., where the starting point was already poor), and in some lines of business, a decade and a half of declining prices. Discouraging and concerning, to say the least.

Today, we find ourselves in a markedly different and transitioning environment, albeit with variability by line of business, customer market segment, geography, and individual account. Generally, today's environment is one marked by rising rates, tightening terms and conditions, and declining line size offerings – in essence, the supply/demand equation has begun to shift as market participants begin to deal with poor underwriting performance stemming from emerging trends that have begun to show themselves in claims activity and reserve deficiencies, and the self-inflicted wounds of many years of underpricing business. Cautious optimism abounds.

EXECUTING AGAINST THE OPPORTUNITY

As we know, the property, casualty and specialty lines insurance business is a difficult business and one that far too often has market participants competing away positive returns. Two keys to success in this business are to avoid the fierce competition that results in poor underwriting performance, and the other is to be in a state of readiness for when the market transitions so that you can recognize the opportunities when they emerge. These two success factors are inextricably linked and success at one is dependent on success at the other. To be successful at both requires clarity of purpose, conviction, discipline, a long term approach, and a focused and tireless execution mindset. If one strays from one's core competencies, plays a short game, or fails to recognize the challenges associated with a business whose supplier's don't know their largest component of cost of goods sold when they sell their product (losses), failure will be met and opportunities will be missed. Winning isn't normal in this business.

As the market transitions, there are numerous steps that we need to take to ensure that we recognize the opportunities that it presents. First, we must be visible with our customers and broker partners – being present is the best way to be thought of when opportunities are presented and solutions are sought. Second, we should continue to act with a sense of humility and a lack of arrogance, and demonstrate to our business partners why during their time of need we are the company they should want to do business with. Third, we should aim to overdeliver by providing a great experience for our customers and broker partners thru exemplary service and industry leading responsiveness and thoughtfulness. Fourth, we should provide our customers and broker partners with context and perspective for our actions, and in so doing, increase the potential for successful outcomes, and minimize the potential of damaging relationships. Fifth, we should have strong collaboration across the company to ensure we achieve the best possible outcomes for the overall business, discrete portfolios, and individual accounts – no one has all the right answers, especially in a changing market. Sixth, we must have all parts of the company and all team members executing effectively in order to deliver all that we have and want to offer. Seventh, we must demonstrate underwriting discipline and only step in when we feel we will be paid adequately for the risk we are being asked to insure, and not assume that rates going up means that rates are adequate. Eighth, when we determine that rates and terms and conditions are adequate, we should use the full scope of what we've built, our collective energy and determination, and the financial resources that are available to us through Berkshire Hathaway, to satisfy the needs of our customers and profitably grow our business. Ninth, while perfection is our goal, we must not allow perfection to become an enemy of progress and the cause of missed profitable opportunities – remember, don't be in a rush, but do have a sense of urgency. Lastly, and importantly, we must all be prepared to put forth an extraordinary effort in order for any and all opportunities to be recognized and realized. Leadership, excellence, effort, and crisp execution matter – at all times.

PURPOSE BUILT

A simple and broad mandate. A meaningful global platform. A team filled with great capabilities and strong character. A broad suite of products and services. A robust and dynamic operational infrastructure. A well-defined and thoughtful approach to underwriting. Active customer and broker engagement. A strong foundational culture. And the largest balance sheet in the insurance industry. These are the characteristics of BHSI – this is what we've built and are part of. We are purpose built to be successful in any market, and to satisfy the needs of our customers and broker partners when and where they exist, especially in times of need. We couldn't ask for much more or a greater opportunity.

OPPORTUNITY IS NOT A LENGTHY VISITOR

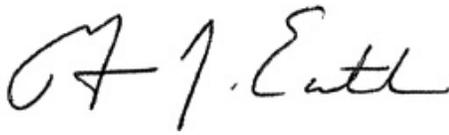
Opportunities to build a business are common. Opportunities to build a business for Berkshire Hathaway are rare. An opportunity to build a business for Berkshire Hathaway with people you like and respect is special. Let's make the most of the opportunity.

Meaningful and lasting dislocation doesn't happen often in business, and rarely in the property, casualty and specialty lines insurance industry. As mentioned previously, the key is to be ready when it does. We're purpose built for this. Let's make the most of the opportunity.

Opportunity for all of us stems directly from our success in capitalizing on the opportunities we identify and are presented with. As we recognize those opportunities, let's remember that opportunity is not a lengthy visitor, and make the most of it, together.

In closing, I'd like to wish all of you and your families a happy holiday season and a happy new year. Thank you for all you do for BHSI, and for your support – you have my respect and gratitude.

With sincere thanks,

A handwritten signature in black ink, appearing to read "P. Eastwood". The signature is fluid and cursive, with a large initial "P" and "E".

Peter Eastwood
President & Chief Executive Officer