



IT TAKES VISION

# Non-Life Insurance Market Miscellany

Nigel Finlay  
22 June 2017

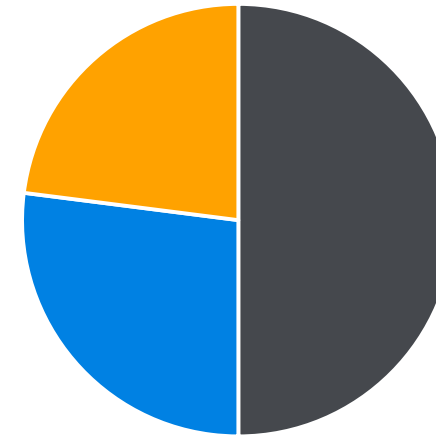
**“Rule No.1: Never lose money.  
Rule No.2: Never forget rule  
No.1.”**



Warren Buffett, Berkshire Hathaway

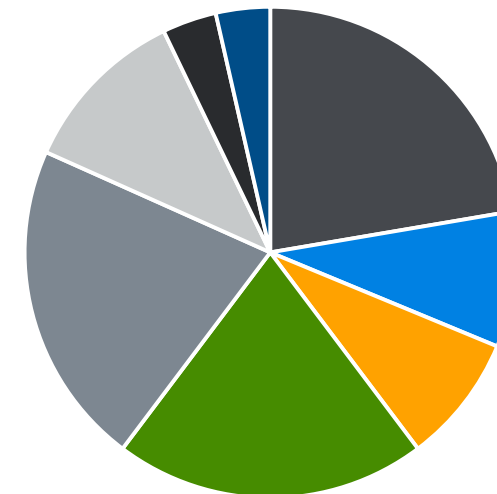
# Berkshire Hathaway

- Originally a failing textile company which Warren Buffet bought in 1964 – moved into insurance & other investments
- Share value gain 1965-2016 of 20.8% p.a. (S&P 500 with dividends 9.7% p.a.)
- 368,000 employees (44,000 in insurance)
- Berkshire Hathaway has been diversifying for years



▪ Assets=620 ▪ Liabilities=335 ▪ Capital=285

Total Revenues = \$224bn



▪ Insurance=50 ▪ Railroad=20 ▪ Energy=19 ▪ Manufacturing= 46  
 ▪ Distribution=48 ▪ Retail=25 ▪ Financial Prod.=8 ▪ Other=8

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# Insurance Float

Warren Buffett, Berkshire Hathaway Annual Report

*“P/C insurers **receive premiums upfront and pay claims later**. In extreme cases, such as claims arising from exposure to asbestos, payments can stretch over many decades.*

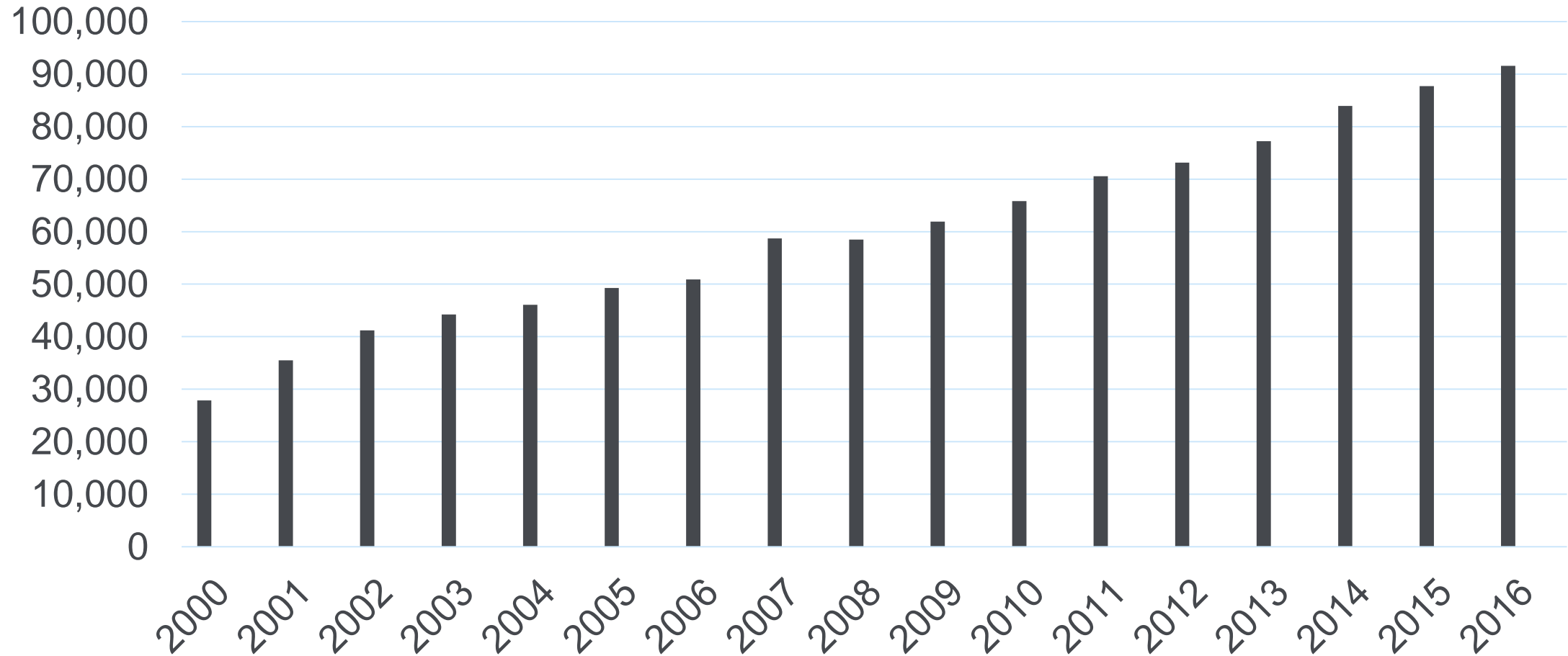
*This collect-now, pay-later model leaves P/C companies holding large sums – **money we call “float”** – that will eventually go to others.*

*Meanwhile, insurers get to **invest this float** for their own benefit. Though individual policies and claims come and go, the amount of float an insurer holds usually remains fairly stable in relation to premium volume.*

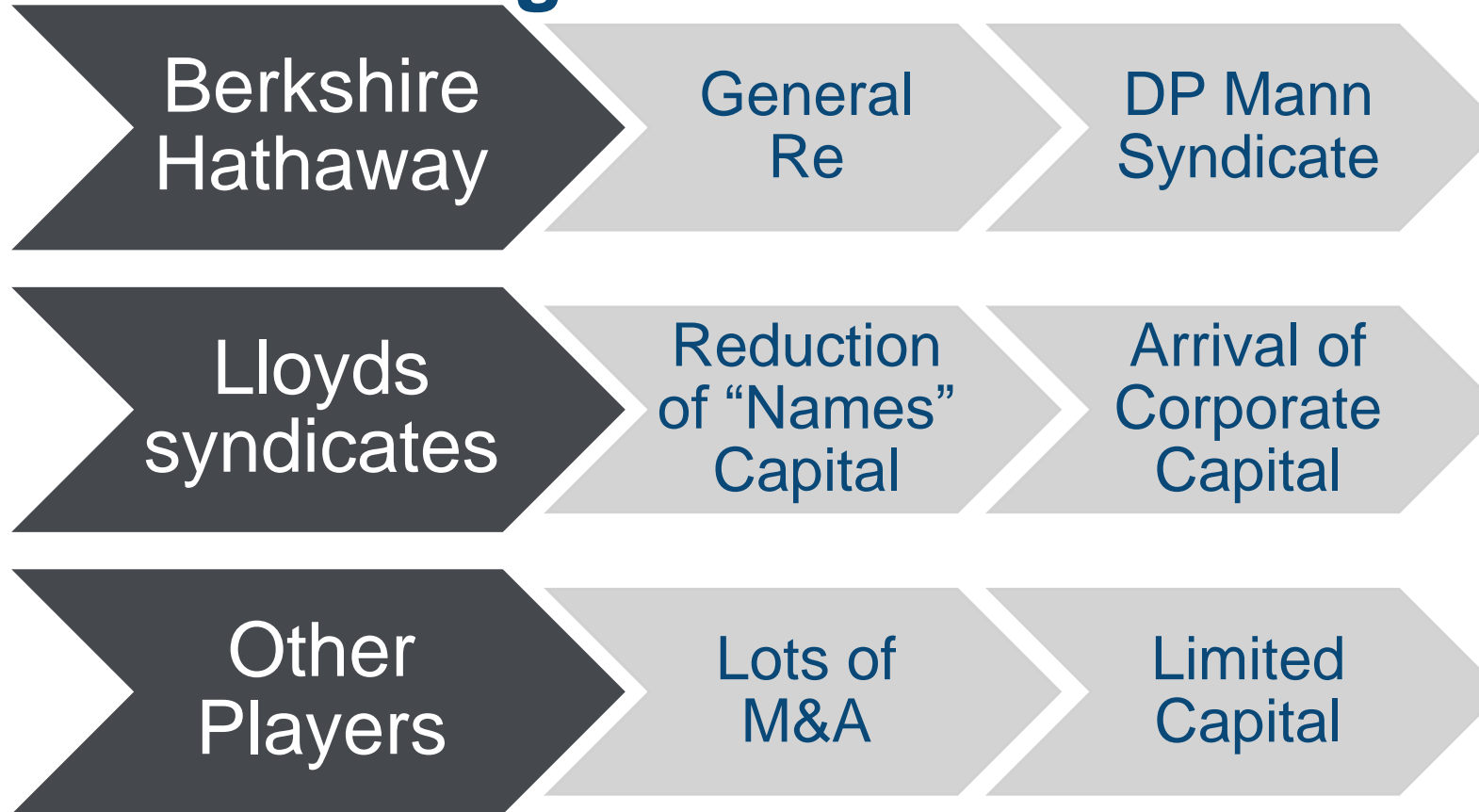
*Consequently, **as our business grows, so does our float.**”*

# Float History – Berkshire Hathaway

Year-End Float in \$000s

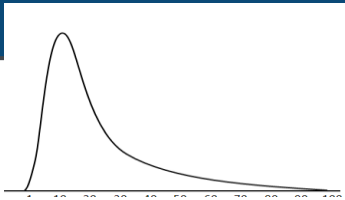


# Acquisitions and mergers – 1997 - 2001



# World Trade Center 2001

Tail Correlations



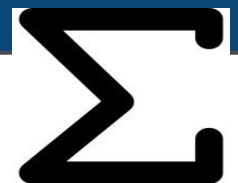
Litigation Expertise



Counterparty  
Credit Risk

**AA+**

Aggregate  
Exposure  
Management



# Operating Model at Berkshire Hathaway

## Capital

Capital Models to determine Economic Capital

Risk Appetite & Business Planning



## Pricing

Target Margins

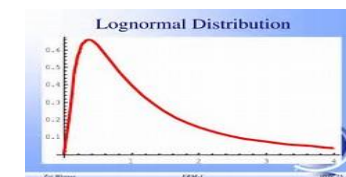
Pricing Model Development



## Metrics

Reserving Strategy

Aggregate Monitoring





# Pricing Example

## Aviation insurance – a great diversifier?

300+ aeroplanes, very standard fleet

Fleet values - \$13.5bn

Passengers p.a. – 120m

Take offs/landings p.a. – 700,000

Hull/Liability cover

“Bump & scratch” retention - \$2m in aggregate

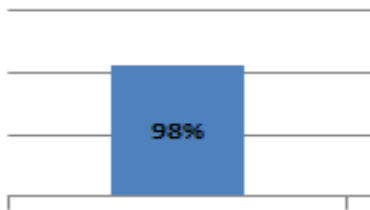
**Premium = \$6m**

**Cost of one engine = \$7.5m**

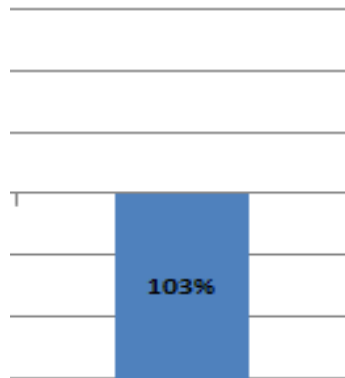


# Highlights from Lloyd's Report 2016

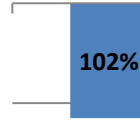
## Combined Ratio



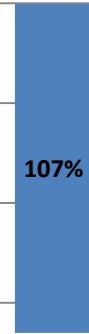
## Current AY



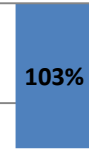
## Reinsurance



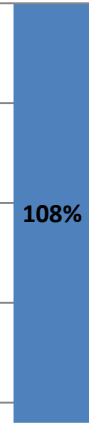
## Property



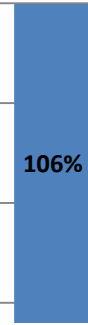
## Casualty



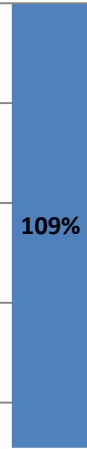
## Marine



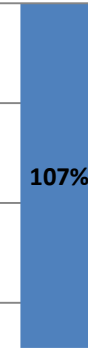
## Energy



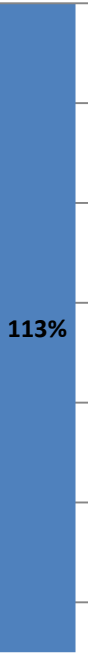
## Motor



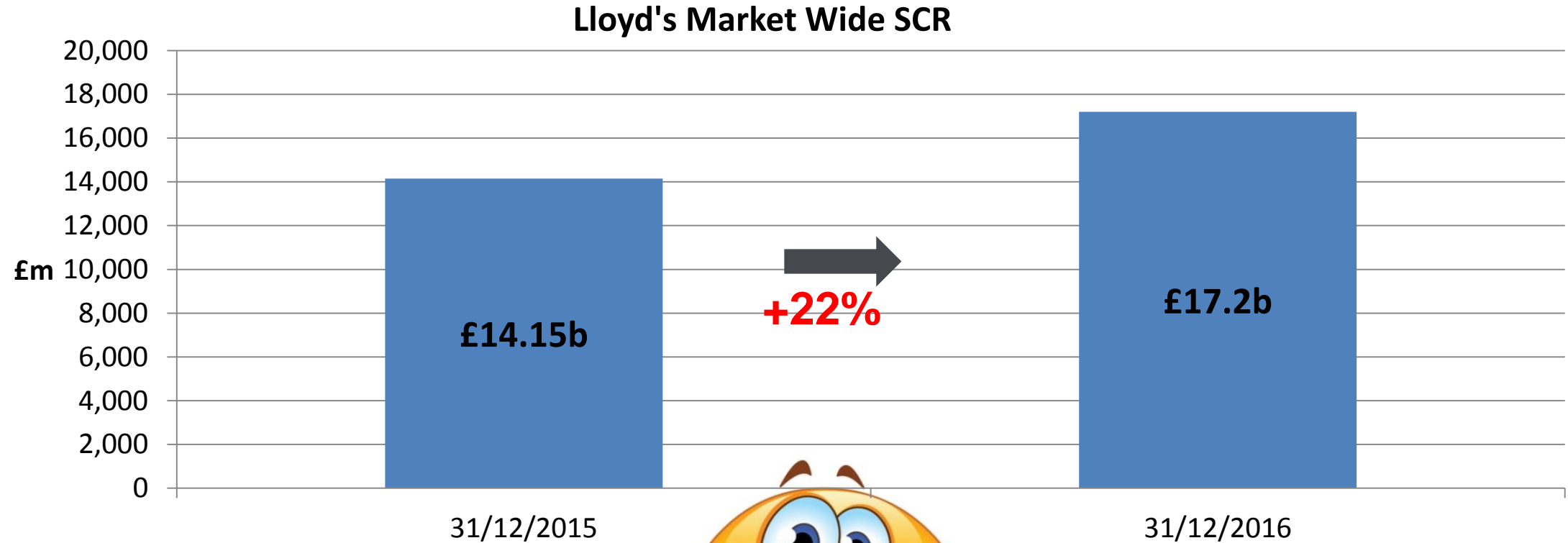
## Aviation



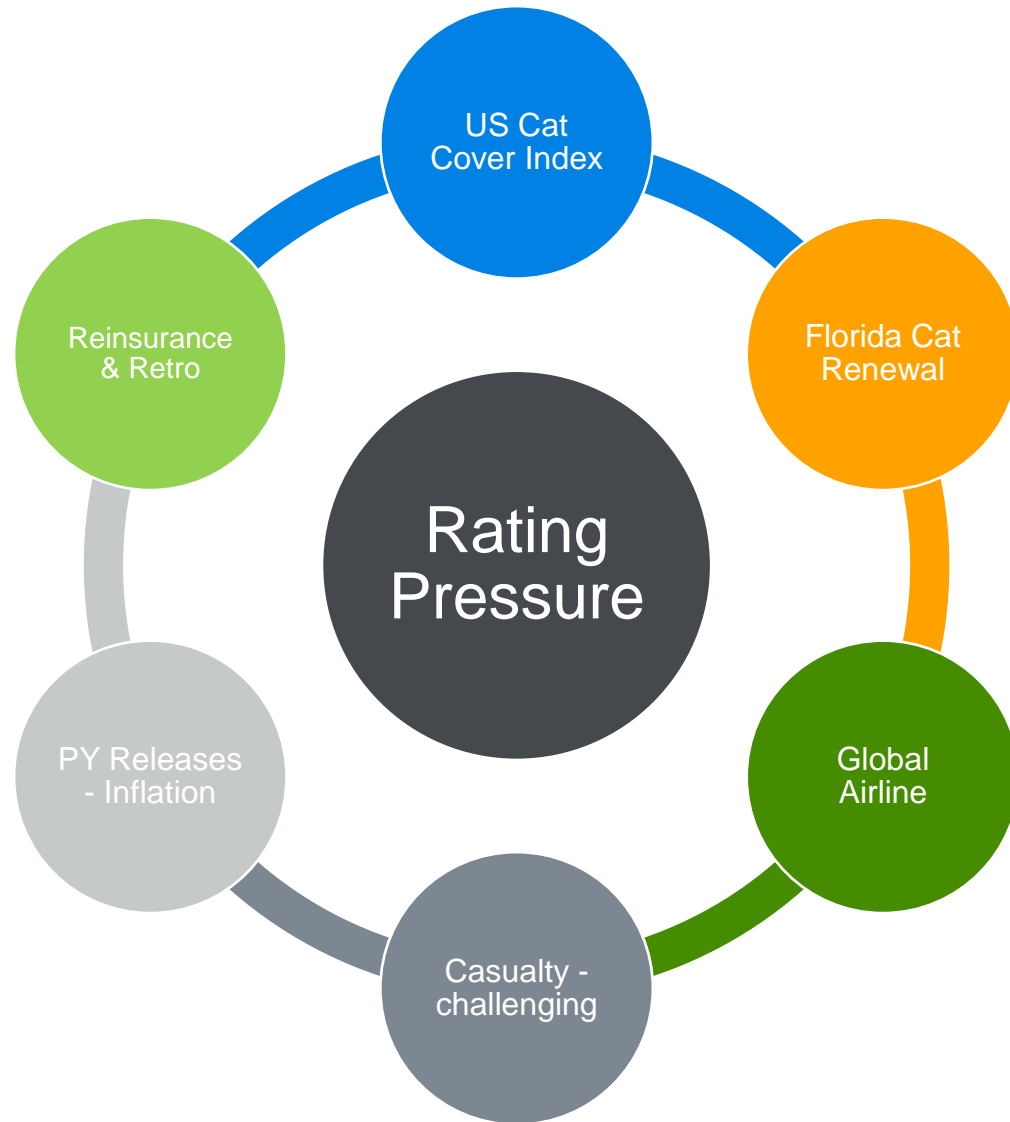
## Life



# Highlights from Lloyd's Report



# Market Soundbites



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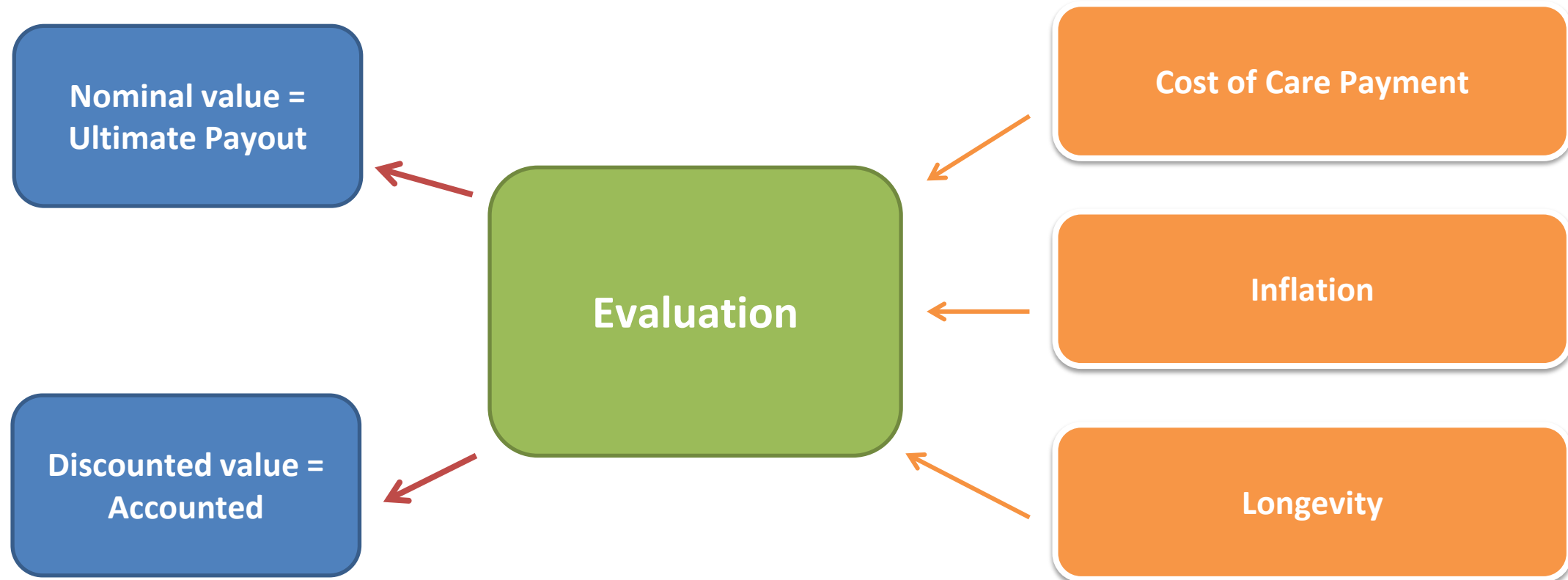
# Leftfield Example

- What loss type in the UK went from zero reserves to £1 billion in six years in Berkshire's London entities?

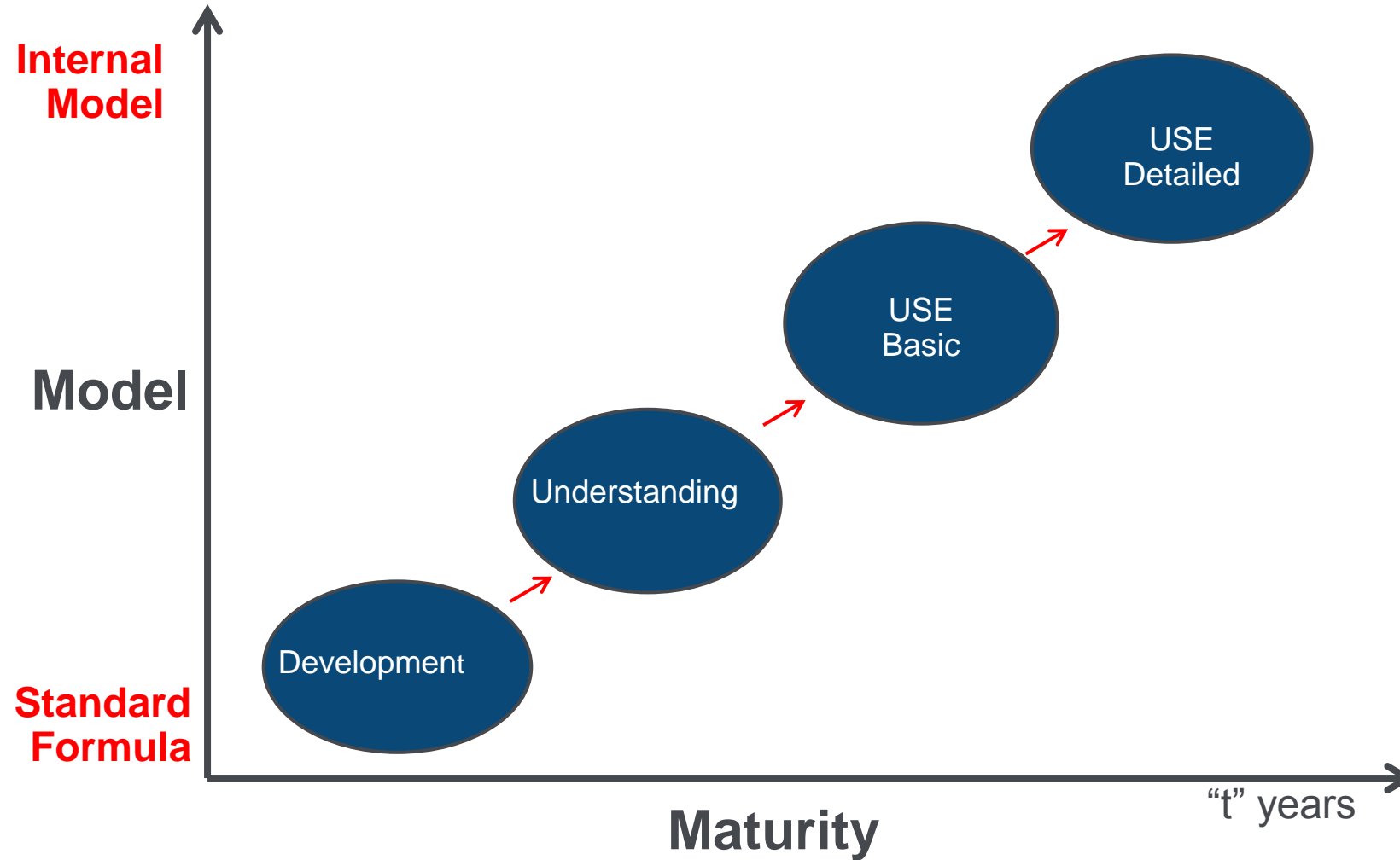
# Leftfield Example

## PPOs

- What loss type in the UK went from zero reserves to £1 billion in six years in Berkshire's London entities?



# Capital Models



# Brexit

Situation even more uncertain?

Future of London as an insurance centre?

Irish opportunity or loss?









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# Thank You

22 June 2017



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