

**Berkshire Hathaway International Insurance Limited**

**Solvency & Financial Condition Report 2018**

Legal Entity Identifier: 213800YK7U6HYI2WAU19



# Contents

	<b>Page</b>
<b>Introduction and summary</b>	<b>5</b>
<b>A. Business and Performance</b>	<b>6</b>
A.1 Business	6
A.2 Underwriting Performance	11
A.3 Investment Performance	12
A.4 Performance from Other Activities	12
<b>B. System of Governance</b>	<b>13</b>
B.1 General information on the system of governance	13
B.2 Fit and Proper Requirements	15
B.3 Risk Management System including the own risk and solvency assessment	15
B.4 Internal Control System	17
B.5 Internal Audit Function	18
B.6 Actuarial Function	19
B.7 Outsourcing	19
<b>C. Risk Profile</b>	<b>20</b>
C.1 Underwriting Risk	20
C.2 Market Risk	22
C.3 Credit Risk	22
C.4 Liquidity Risk	22
C.5 Operational Risk	23

<b>D.</b>	<b>Valuation for Solvency Purposes</b>	<b>24</b>
D.1	Assets	26
D.2	Technical Provisions	28
D.3	Other Liabilities	30
D.4	Alternative Methods for Valuation	30
<b>E.</b>	<b>Capital Management</b>	<b>31</b>
E.1	Own Funds	31
E.2	Solvency Capital Requirement and Minimum Capital Requirement	32
E.3	Use of the duration based equity sub-risk module in the calculation of the SCR	32
E.4	Differences between the standard formula and any internal model used	32
E.5	Non compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement	32
<b>F.</b>	<b>Approval by the Administrative, Management or Supervisory Body (AMSB) of the SFCR and reporting templates</b>	<b>33</b>
<b>G.</b>	<b>Independent Auditors Report</b>	<b>34</b>
<b>H.</b>	<b>Appendix</b>	<b>37</b>
H.1	SFCR Templates	37

## Introduction and Summary

This is the Solvency and Financial Condition Report (SFCR) for Berkshire Hathaway International Insurance Limited (BHIL), based on the financial position as at 31 December 2018.

BHIL uses the Standard Formula to calculate its solvency capital requirement. The Standard Formula produces a Solvency Capital Requirement which management accept as appropriate to use for the business under Solvency II standards.

The key solvency ratios are disclosed below. The calculations of the capital requirements are defined by the Solvency II Regulations.

### Key Capital Performance Indicators

	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Available and Eligible Own Funds	527,598	523,343
Standard Formula Solvency Capital Requirement (SCR)	143,025	152,256
Surplus over SCR	384,573	371,087
Ratio of Eligible Funds to SCR	<b>369%</b>	<b>344%</b>
Minimum Capital Requirement (MCR)	35,756	38,064
Surplus over MCR	491,842	485,279
Ratio of Eligible Funds to MCR	1476%	1375%

As at 31 December 2018 BHIL had a Standard Formula Solvency Capital Requirement of \$143m. This is covered by \$528m of eligible capital resources resulting in a Solvency II surplus of \$385m and a coverage ratio of 369%.

The SCR decreased by just over \$9.2m during the year and this was largely as a result of reduction in the market risk (\$19.5m) and operational risk (\$1.5m). Offsetting these reductions were increased underwriting risk charge (\$5.1m non-life and \$3m health), increased counterparty credit risk (\$5.8m) and a reduction in the diversification credit (\$0.5m). The standard formula SCR also reduced by \$2.6m for the loss absorbing capacity of deferred tax which was incorporated for the first time during the year.

The large market risk reduction of \$19.5m was due to a fall in the value of the equity investment holdings, and also a change in investments held. The switch in the year to an increased number of USD equities resulted in a better match of the Company's assets and liabilities and has resulted in both currency risk and concentration risk reducing.

It is forecast that the company will continue to maintain a surplus over both the Standard Formula Solvency Capital Requirement and the Standard Formula Minimum Capital Requirement over the current planning horizon. There are no current indicators that suggest that this is likely to change over the longer term.

## A. Business and Performance

### A.1 Business

Berkshire Hathaway International Insurance Limited commenced trading on 1 January 1997 and its principal activity is underwriting general insurance business. The Company's operations are administered by the Company with additional administrative and claims handling services being provided by related group companies. The Company's operations are directed from London but it also operates from branch offices in Switzerland, Italy and Germany.

BHIL is a wholly owned subsidiary of National Indemnity Company (NICO), an insurance company and a subsidiary of Berkshire Hathaway Inc. (BHI) a multinational conglomerate holding company quoted on the New York Stock Exchange. Both NICO and BHI are headquartered in Omaha, Nebraska.

NICO forms part of the BH Reinsurance Division of BHI.

At 31 December 2018 NICO had a US\$122bn Surplus as regards policyholders and total assets of US\$228bn. BHIL is one of a number of subsidiaries of NICO. BHIL represents less than 2% of the total assets of NICO, and less than 2% of NICO's reported consolidated underwriting premium in 2018.

BHIL is the primary non-life European licensed insurance carrier for BH Reinsurance Division.

#### Regulation

BHIL is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The Swiss Branch is regulated by the Swiss Financial Market Supervisory Authority (FINMA).

Contact details for each of these regulators can be found on their respective websites:

[www.bankofengland.co.uk/pru](http://www.bankofengland.co.uk/pru)

[www.fca.org.uk](http://www.fca.org.uk)

[www.finma.ch](http://www.finma.ch)

The company's external auditor for the year ended 31 December 2018 is Deloitte LLP.

The Company's registered office and principal place of business and the contact details of its external auditors and supervisory authority are presented below:

Registered Office	External Auditors	Supervisory Authority
<b>Berkshire Hathaway International Insurance Limited</b>	<b>Deloitte LLP</b>	<b>Prudential Regulation Authority (PRA)</b>
4th Floor 8 Fenchurch Place London EC3M 4AJ +44 (0) 20 7342 2000	2 New Street Square London EC4A 3BZ +44 (0) 20 7936 3000	20 Moorgate London EC2R 6DA +44 (0) 20 7601 4444

## Strategy

The business strategy is to manage the underwriting cycle and write selected classes of business over the long-term to achieve an underwriting profit over the course of the cycle. The underwriting business is managed in divisions, the risk appetite and business strategy being defined at business level.

**Berkshire Hathaway Speciality Insurance (BHSI) Division:** This division writes casualty, property and executive & professional lines under the BHSI brand. BHSI is in a growth phase targeting appropriate commercial insurance using the financial strength of Berkshire Hathaway to provide the ability for outside capacity and creative, flexible solutions customers can count on year after year. A core element in this is building the capability for claims excellence, a key element of the BHSI brand.

**MedPro Division:** This division works closely with US sister company, MedPro Group, to develop business opportunities in Europe for the provision of medical malpractice cover for medical practitioners, with associated ancillary lines.

**Faraday Division:** This division focusses on writing managing general agency (MGA) business, targeting low levels of volatility and supported by appropriate reinsurance structures. Faraday, a member of the Group of companies, manages a Lloyd's Syndicate in the UK as well as being an FCA authorised intermediary.

**BHRG Division:** This division is reactive to global market conditions and looks to underwrite profitable business opportunities with support of appropriate business understanding. This division includes Italian medical malpractice and hospital liability business, and participation in Global Aerospace Underwriting Managers (GAUM) pools where the participation level is determined by an annual review of the underwriting cycle and availability of pool capacity. This division also assesses opportunities in supporting managing general agency business, and on occasion, is approached by brokers to underwrite large one-off risks which are considered on their individual merits.

BHIL has a comprehensive outwards reinsurance program placed with companies within the Group, with the most material cover provided by NICO.

BHIL maintains surplus capital in order to take up business opportunities as they arise and additional capital can be made available by NICO if required to support attractive new underwriting or for other reasons. BHIL's current policy is to retain excess capital in order to enable some flexibility on the current year business plan. BHIL and NICO are both rated AA+ by Standard & Poor's.

For funds supporting underwriting the investment strategy is conservative and investment guidelines require funds to be invested in fixed interest securities with a credit rating of A and above held to maturity.

A Capital Surplus Portfolio is also held; this comprises assets held in excess of the requirements of policyholders and can include large strategic long-term equity holdings consistent with holdings by BHI. This portfolio therefore is intended to provide long term growth and countenances potential market volatility and lower asset liquidity as well as accepting potential concentration risk.



The Company has in place a Trust Fund Agreement with NICO in respect of the exposure generated from the outwards reinsurance program. This arrangement satisfies the requirement of BHIL to manage its exposure to NICO, under the current regulatory regime.

All other risks are actively managed to mitigate the possibility of significant adverse impact to the business.

Underwriting, investment, and other matters may be subject to consultation with the Holding company and its representatives; however the Board operate in accordance with the interests of BHIL recognising its distinct legal entity status and regulatory requirements.

### **Brexit Strategy**

As reported last year the Company was actively considering the best way to support EU business in the event the Company is unable to service clients after the UK departs the EU and potentially the single market. The conclusion of these considerations was the formation of a wholly owned subsidiary in Ireland, Berkshire Hathaway European Insurance Designated Activity Company (BHEI), which received regulatory approval from the Central Bank of Ireland on 4th March 2019. The Company is also actively considering obtaining regulatory approval to operate its Italian Branch under third country regulations.

The Company is in the process of transferring European based staff in Germany to BHEIC. We anticipate European business will be transferred to BHEI at renewal and agreements with European MGAs are being assigned or transferred to BHEI.

It is the view of the Directors that the UK and London Market will remain a significant insurance and reinsurance market for the foreseeable future and that this reduction of business volumes will have limited impact on the UK based operations as though European business, excluding the Italian operation, accounts for approximately 30% of the Company's revenue, with approximately 15% under Freedom of Establishment and 15% under Freedom of Services, it is currently unclear to what degree that Freedom of Services business will migrate to the new subsidiary as this will be dependent on market access in the UK and the future broking of these risks. The Company is also anticipating significant growth in the UK operation primarily in the BHSI and Faraday Divisions which will off-set these transfers.

The ability of the Company to continue servicing existing European Policyholders in the event it loses its Passporting permissions is a matter of interpretation of national regulators. To address this the Company has commenced a transfer process under Part VII of the Financial Services and Markets Act 2000 and continues to monitor the political and regulatory environment.

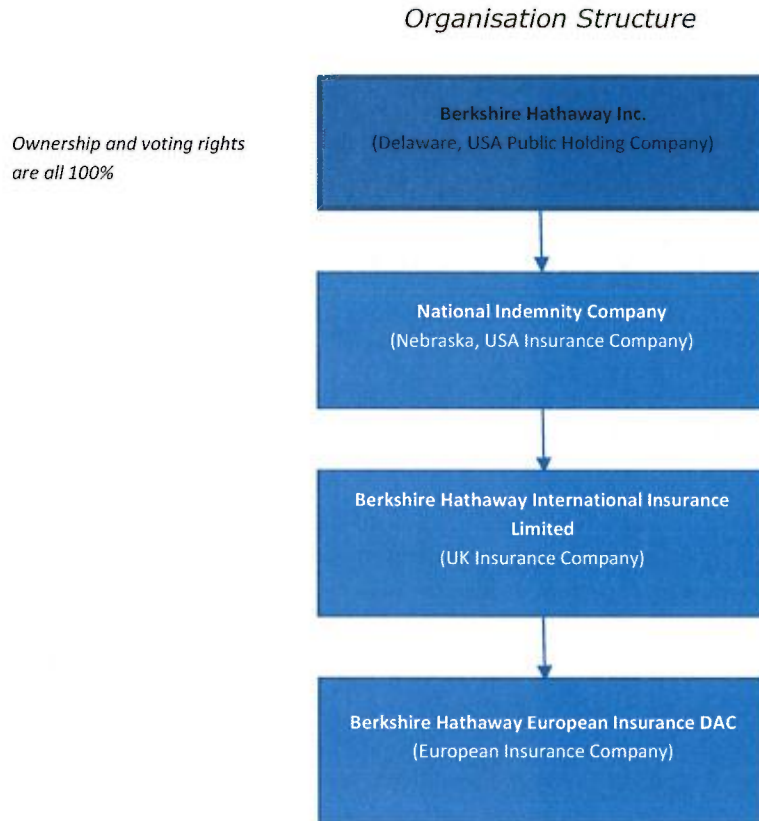
In addition to regulatory change, the Directors are aware that a 'Hard' Brexit also has potential to increase volatility in the markets with the sudden devaluation of Sterling being a potential market response.

The Director's consider the current investment policy and matching of liabilities and assets in currency to put the Company on a sound basis to deal with any market volatility.



## Group Structure

Below is a simplified group structure for Berkshire Hathaway Inc. Insurance group pertaining to BHIL.



## **Review of the Business**

The Company's credit rating from Standard & Poor's remained at AA+ throughout the year. The full S&P ratings report can be found on the BHILL website [www.bhill.com](http://www.bhill.com).

During the year the Company operated under four distinct divisions to allow the development of multiple brand offerings. In the year the Company created a new division Faraday which joined the existing divisions of BHRG, MedPro and BHSI.

### BHRG Division

The division successfully underwrote a number of international reinsurance treaties during the year, mostly with European and Japanese cedants. Significantly lower amounts of high excess US Casualty business was written by the BHRG division as assureds preferred to utilise US based group capacity.

This division continued to underwrite Italian medical malpractice business through the Italian branch, and also continued to underwrite aviation business through GAUM and UK commercial motor through an MGA agreement. During the year this division also commenced supporting three MGAs writing Latin American property business, Nordic property and casualty, and UK commercial motor respectively.

### Medpro Division

This division continued to underwrite medical malpractice cover through two MGA arrangements operating in the UK and France. The UK MGA was purchased by a Group Company in January 2018. The division began providing hospital liability cover which was underwritten through an agent.

### BHSI Division

Significant growth in the BHSI division was achieved through the year, through distribution channels in the UK, Ireland and Germany. BHSI underwrote a wide array of products across the casualty, executive & professional, property and marine classes.

### Faraday Division

The newly formed Faraday division successfully underwrote a UK commercial motor and a UK personal lines motor MGA during the year, in addition to a UK accident and health MGA and a number of motor treaties.

## A.2 Underwriting Performance

The Company primarily manages its business by division as described on pages 7 and 8. Under Solvency II, the lines of business are pre-defined.

The tables below provide the details of the Company's underwriting performance for 2018 for the major Solvency II lines of business. Full details of the Company's premiums, claims and expenses for the year are disclosed in template S.05.01 (unaudited) which is included within the appendix.

<b>Year ended 31 Dec 2018</b> <b>\$000</b>	<b>Motor Vehicle Liability</b>	<b>Marine, Aviation &amp; Transport</b>	<b>Fire &amp; Other Damage to Property</b>	<b>General Liability</b>
Net Premium Written	16,436	4,716	11,568	38,239
Net Premium Earned	12,017	6,315	29,182	34,641
Claims incurred	(11,879)	5,672	(22,177)	(27,833)
Changes in other technical provisions	(858)	504	1,680	(2,723)
Expenses incurred	(1,919)	(1,844)	(6,800)	(7,110)
<b>Underwriting performance</b>	<b>(2,639)</b>	<b>10,647</b>	<b>1,885</b>	<b>(3,025)</b>

<b>Year ended 31 Dec 2017</b> <b>\$000</b>	<b>Motor Vehicle Liability</b>	<b>Marine, Aviation &amp; Transport</b>	<b>Fire &amp; Other Damage to Property</b>	<b>General Liability</b>
Net Premium Written	6,503	5,278	25,929	25,955
Net Premium Earned	4,916	8,335	30,352	30,172
Claims incurred	(4,937)	2,440	3,431	(25,434)
Changes in other technical provisions	(21)	422	(113)	(991)
Expenses incurred	(696)	(2,223)	(7,754)	(5,644)
<b>Underwriting performance</b>	<b>(738)</b>	<b>8,974</b>	<b>25,916</b>	<b>(1,897)</b>

The BHIL Board of Directors are satisfied with the underwriting performance of the Company for 2018.

### **A.3 Investment Performance**

The Company considers the assets of the Company to comprise two portfolios. The first portfolio, the Insurance Portfolio, is in excess of policyholder liabilities after reinsurance plus an amount of surplus capital. The second portfolio, the Capital Surplus Portfolio, comprises assets invested outside of the Insurance Portfolio.

In respect of the Insurance Portfolio the Company adopts a conservative investment and risk management policy to ensure that there is no material exposure to market or liquidity risks.

In respect of the Capital Surplus Portfolio the Company accepts market and liquidity risks. The Capital Surplus Portfolio was valued at \$99m at 31 December 2018.

The Company has no exposure to derivatives or currency-hedging risks.

The Company's investment return was down in the year. During the year the equity investment held was sold and the proceeds reinvested in a portfolio of three American stocks. This disposal resulted in a loss on sale of \$1.5m. Over the year the market value of the equity investment holdings decreased resulting in an unrealised loss at the balance sheet date of \$19.7m.

Yields on US and Sterling Government Bonds remained fairly static in the year.

Investment gains and exchange losses resulted in the Company reporting a loss before tax of \$0.8m (2017; \$45.6m profit). There were no material investment expenses incurred in the year.

Reported exchange gains of \$0.6m were reported in the year compared to \$0.5m of exchange losses the prior year.

The Director's consider the current investment policy and matching of liabilities and assets in currency to put the Company on a sound basis to deal with any market volatility.

### **A.4 Performance from Other Activities**

The Company did not undertake any other activities in the year.

## B. System of Governance

### B.1 General information on the system of governance

The Governance structure of the company is set out in the BHIL Governance Map.

#### Board

BHIL is run by a Board of Directors operating under documented terms of reference and matters reserved for the Board. The Board oversees various Board Committees who operate under their own Board approved Terms of Reference and report into the Board on a regular basis. Board meetings are normally held on a quarterly basis with additional meetings scheduled as required.

The board members as at 31 December 2018 were:

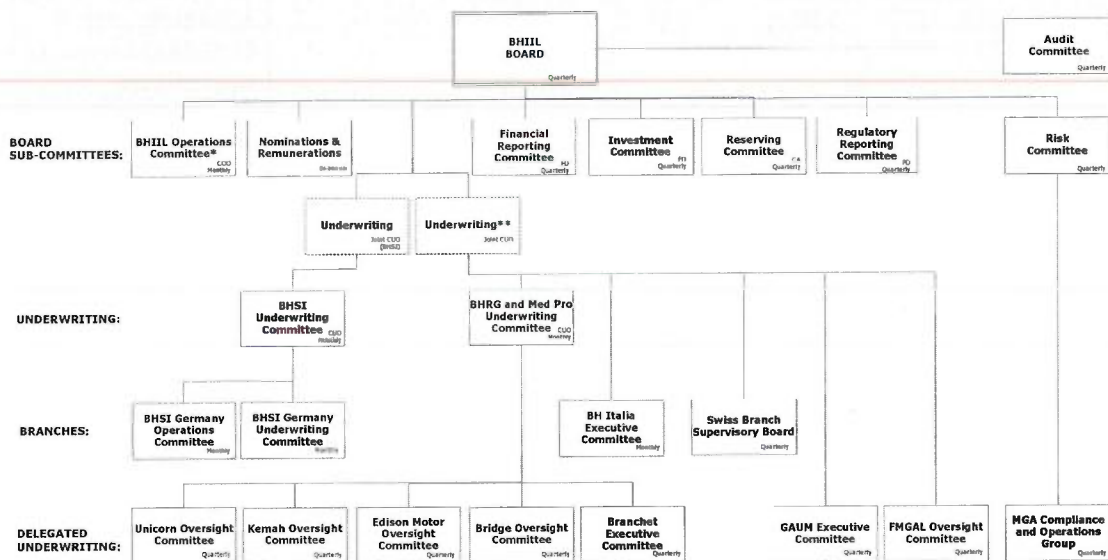
Name	Role and SIMF /SIF Status	Appointment to Role	Other Information
John Powell	Chairman (SMF9, SMF12)	July 2014	Chair of Board and Chair of Remuneration Committee (incorporates Nominations)
Michael Steel	Chairman (SMF10, SMF11)  Senior Independent Director (SMF14)	August 2016	Chair of Risk Committee Chair of Audit Committee
Robert Love	Chief Underwriting Officer (Non BHSI Division Business) (SMF23)	December 2008	
Christopher Colahan	Chief Executive Officer (SMF 1)  Chief Underwriting Officer (BHSI Division Business) (SMF23)	October 2018	Christopher Colahan took up the role of Chief Executive Officer from 01/01/19 (subject to PRA approval)
Guy Finney	Finance Director (SMF2)	April 2008	Chair of Regulatory Reporting, Financial Reporting and Investment Committees
Stephen Michael	Non-Executive Director (Notified NED)	January 2019	Member of Audit Committee Stephen Michael stepped down from the Chief Executive Officer role on 31/12/18 but remains on the Board as a non-executive director
Andrew D'Arcy	Non-Executive Director (Notified NED)	August 2016	Member of Audit Committee Member of Risk Committee

The Key Responsibilities of the Board are:

- To determine the strategic direction of BHIL and to define the Company's Risk Appetite.
- To determine the approach to the Own Risk and Solvency Assessment, challenging and improving the results.
- To ensure that BHIL has a suitably resourced system of Compliance and independent review and to monitor the adequacy of the operation.
- To ensure that BHIL treats customers fairly and has adequate systems to address the risk of Financial Crime.
- To ensure that BHIL is compliant with all relevant legislation.
- To ensure that System of Governance remains appropriate.

### Committee Structure

The chart below sets out the Committee Structure of BHIL.



\* Operational reporting is received from the delegated underwriting and Branch operations where appropriate.  
 \*\* Each underwriting division reports separately to the BHIL Board.



## **B.2 Fit and Proper Requirements**

BHIL has a policy which sets out the procedures to ensure that all those undertaking controlled functions on behalf of the company are and remain fit and proper to carry out those functions.

These procedures ensure that all those holding controlled functions:

- meet the requirements of the Regulators' 'fit and proper' test and follow its principles
- comply with the Statement of Responsibilities; and
- report anything that could affect their ongoing suitability.

The following factors are taken into account when deciding whether an individual is fit and proper:

- their honesty, integrity and reputation
- their competence and capability; and
- their financial soundness.

Fitness and propriety checks are made before an individual is appointed to carry out a controlled function and also periodically thereafter.

## **B.3 Risk management system including the own risk and solvency assessment**

The Board has approved a documented Risk Management Framework.

The Risk Management Framework is designed to ensure that there are clear responsibilities and reporting lines. In conjunction with an appropriate monitoring and reporting structure the Risk Management Framework is intended to provide the BHIL Board with confidence that risks are appropriately controlled in accordance with the Board's risk tolerance.

A pre-requisite of managing risk is that the Board have a good understanding of the risks that are faced by the business, and have considered the appropriate level of risk that the business will stand. Articulation of the Board's Risk Appetite in documented Risk Appetite Statements enables cascading of Risk Management throughout the organisation and provides useful reference material when considering new opportunities or process change.

### **Policy & Procedure for Articulating Risk Appetite**

The Risk Appetite Statement describes the Board's appetite for risk.

The risk appetite framework enables BHIL to define what strategic objectives are supported in its risk-taking activities and to keep exposure within agreed limits. The BHIL risk appetite framework therefore supports decision-making processes and understanding of its performance. The BHIL risk appetite statements are supported by risk appetite measures, which define the extent BHIL is prepared to tolerate exposure to different types of risk in order to meet its strategic objectives. The risk appetite metrics are updated on a quarterly basis and are presented to the Risk Committee for review.

Operational Risks are managed by the application of internal controls and are also monitored via key risk indicators. It is the responsibility of the operational management to ensure that appropriate controls are in place to operate within risk appetite.