Jim's Perspective…

Nebraska Insurance Industry News

Warren Buffett announced plans to retire as CEO of Berkshire Hathaway effective January 1, 2026. He will remain as Chairman of the Board. As you know, Berkshire Hathaway has a significant amount of the company's assets invested in insurance companies. Some of the insurance companies include GEICO, Gen Re, and Omaha insurer, National Indemnity. Berkshire Hathaway has had a major presence within the insurance industry for many years. I met Warren Buffett during the first few years of working at Farmers Mutual of Nebraska back in the early 1980's. Each year, the domestic insurance industry held an annual insurance industry convention through the industry's state trade organization, now called Nebraska Insurance Federation (NIF). I always attended this annual meeting. When I first met Warren Buffett, which I think was at this meeting, he immediately asked me if I was related to Bill Dobler. I said "yes, he is my dad." He said he really liked my dad. My dad was editor of the Lincoln Star newspaper at that time. My dad also told me he really liked Warren Buffett! I don't remember for sure how they got to know each other. Warren Buffet always had an interest in the newspaper business. He bought the Buffalo News in 1977, and he also bought the Omaha World Herald in 2011, all through Berkshire Hathaway. Because of this connection between Warren and my dad, Warren always remembered me, and occasionally we visited at the annual NIF meeting. Warren Buffett is a gentleman, and a very nice guy. I always liked visiting with him and I wish him the very best in retirement!

I still have a 1982 Berkshire Hathaway Annual Report To Stockholders (Report). This was given to me by Dwight Perkins, Chairman, and CEO at Farmers Mutual of Nebraska back in 1982. Dwight graduated from Lincoln High School and went on to obtain a bachelor's degree and law degree from Harvard University. He was well-acquainted with Warren Buffett. Dwight gave me the Report with a note on the front of the report which said, "This is an interesting and clever report. See especially his views on the insurance industry at pp 8-10." I agree with Dwight that the Report included some very interesting Warren Buffett observations about the insurance industry. I thought I would share with you some of what Warren said about the insurance industry.

The Report notes that the property and casualty insurance industry combined ratio[1] for the years 1972 to 1982 was not good. According to Mr. Buffett, to understand the poor profitability of the property and casualty insurance industry, we must look at some major factors that affect levels of corporate profitability generally. Below, I explain Mr. Buffett's corporate profitability concept. It is not exactly what is contained in the Report, but just my summary, or understanding, of his concept!

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[1]. The combined ratio is a metric to show the profitability of an insurer. It involves adding together the insurer's loss ratio and expense ratio for the year and then dividing that by the company's premium earned for the year. If losses and expenses together exceed premium collected, the insurer has lost money for the year. So if the company earned $900 in premium, and paid out $700 in losses and another $50 in operating expenses, the combined ratio would be 83.3 ((700 + 50) / 900) x 100=83.3%. However if the company paid out $900 in losses and another $100 in operating expenses, the combined ratio would be 111.11% (($900 + $100) /900) x 100=111.11%. which is a bad financial year since the combined loss ratio is over 100%. Note too, that this calculation does not consider the insurer's investment income which has always been a bit of an issue within the insurance industry.

> Businesses in industries with both substantial "over-capacity" and a "commodity product" (undifferentiated in any customer-important way by factors such as performance, appearance, service support, etc.) are prime candidates for profit troubles. The insurance industry is vulnerable to "over-capacity" because, theoretically, an insurer has no specific limitation on how much risk it wants to insure. It can simply be nothing more than an underwriter's willingness to expand the acceptable risk exposures and just write more business. Stated differently, the insurer's surplus funds for payment of claims can be applied to any amount of potential loss exposures that the insurer wants to assume. As I recall, there is an industry standard for how much potential loss exposure the insurer should be exposed to, based upon the company's surplus, but this standard does not need to be followed. The insurance industry has a "commodity product" in that many insureds, including managers of large businesses, do not even know the names of their insurers (who wants to look at an insurance policy?). So, according to Mr Buffett, the insurance industry is a textbook case of an industry usually faced with the deadly combination of "over-capacity" and a "commodity product".

Mr. Buffett then notes that one way for "over-capacity" to be reduced or eliminated is if there is a major shock factor that impacts the industry such as a natural or financial "mega-disaster." How interesting! I wonder if the California wildfires and the Florida hurricanes in recent years might be the "mega-disasters" that cause significant financial change to the property and casualty insurance industry. Very interesting that Mr. Buffett was thinking about this back in the 1980's!

I've always liked the Nebraska insurance professionals working within the Berkshire Hathaway insurance operations located in Nebraska. Very fun too, that Berkshire Hathaway is known nationally as having an exceptionally good insurance operation. Warren Buffett and Berkshire Hathaway have been an excellent and positive example of the value of insurance to people and businesses.

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