 

Onward and Upward...with a brief pause for reflection and thanks

DECEMBER 29, 2014

Team,

As we close out 2014, begin 2015, and with 20 months behind us on our decades long journey (perhaps a bit understated for a FOREVER business, but I’m sure you all get the point!) to build the finest property and casualty insurance company on the planet (who’s up for big audacious goals?!), I want to take the opportunity to thank all of you for your contribution to the success of our company. I couldn’t be more proud of what we’ve accomplished together, and importantly, I couldn’t be more pleased with the team that we’ve assembled. I’m proud to be part of the group and to work with all of you. And thanks for proving that an equal focus on “capabilities” and “ character” makes a difference (importantly, don’t forget it!).

So let me offer a bit of history, combined with some thoughts on the way forward (which if we’ve gotten it right should look pretty similar!)…

Since the beginning of our journey on April 29, 2013, we’ve been rolling up our sleeves and building our company from the ground up, all the while benefiting from the greatness of the company we are fortunate to be part of, Berkshire Hathaway (balance sheet, financial strength ratings, brand identity, reputation, operating philosophy, knowledge…). As you all know, when we started the company we were given a very broad and simple mandate (see above reference to finest on the planet!), and told that we could build the business anywhere in the world, and enter virtually any product line area, as long as we felt and could demonstrate that we could produce a sustainable profit for Berkshire Hathaway. And so we began building…and building…and building (and of course, operating the company at the same time!)…and we’re still building! Let me count the ways, starting appropriately with the best topic of all – the team:

# PEOPLE

Let’s start with how many people we have on the team. Care to venture a guess? Ok, I’ll tell you – 527 strong! And does anyone know how many people were on the team at the end of 2013? Ok, I’ll answer that one as well – 82 strong! So, through the strong hiring efforts of many of you, and with the acquisition of the travel and assistance businesses (and importantly their people), we added 445 people to the team in 2014 – an incredible feat on many fronts – identifying, interviewing, hiring (from 40+ companies), onboarding…and now managing, leading, and supporting a rapidly growing team. As we continue to build and grow our business, we will of course add additional people to the team – in the process of doing so, we will remain focused on hiring people with BOTH strong “capabilities” and strong “character” – people who are good at what they do, and who do it the right way. Performing at a high level requires both – we must not compromise. Additionally, with a growing team we will spend more time in 2015 (and beyond) on the subject of employee development and learning – expanding our successful Manager Learning Sessions, developing and implementing a new orientation program, supporting professional designation programs, and perhaps most importantly, using the growth of our business as a means to present strong contributing team members with new and different opportunities, and increasing levels of responsibility – effectively operationalizing the meritocracy and performance culture that we are.

# CULTURE

Since starting the company we’ve spent (and will continue to spend) a good amount of time (as we should) on culture – defining who we are (“a powerful platform, driven by exceptional people”), what we value (“respect, integrity, excellence, collaboration, passion”), and creating and setting expectations (“individual excellence in a team framework”). We’ve also discussed how “trust” is an “essential element of success”, and how in order to have a high level of trust in the company we need to get to know one another and leverage the collective strengths of the group – creating connectivity amongst the team is and will remain a priority for us – be sure to continue to do your part. I’m a firm believer that “culture” is a topic worth spending time on and investing resources in, and I believe, if we get it “right” we will set ourselves apart from the competition by attracting and retaining the most talented people (all of you) - the bottom line is we need to create compelling reasons why people want to work with and for us, otherwise they will go elsewhere. I am committed to doing so for every person we have (and will have) on the team – count on it! But also recognize, like many things that we do, this is a team effort and everyone must do their part. I’m counting on all of you to “walk the talk”, because ultimately its behaviors that matter, not just words. You’ve done a great job so far, keep it going – again, don’t compromise!

# PRODUCT

On the product front we’ve made meaningful progress on our strategy to go “wide”, to get as much (profitable) product in the market as quickly as we can in satisfaction of the needs of our customers. Today, we stand eight business units strong in the U.S. (with Canada, Asia, and Australasia quickly catching up!) – property, casualty, executive & professional lines, healthcare medical professional, programs, surety, homeowners, and travel and assistance (that’s plus three in 2014 , up from five in 2013, for those of you keeping track!). In many of our business units we introduced new product capabilities in 2014 – builders risk (property), marine (property), life sciences (casualty), environmental (casualty), managed care and senior care (healthcare), primary D&O (executive & professional), fiduciary liability (executive & professional), fidelity (executive and professional), and the AirCare travel product. As we move into 2015, we will continue with our strategy of going “wide”, predicated on the belief that our customers and broker partners look to those carriers that can satisfy most if not all of their needs when they are forming strategic carrier relationships. Additionally, we will further pursue our strategy of going “deep”, by selling more products to our existing and growing customer base, as well as expanding our target customer market segments by industry class and size of company. Importantly, we will only expand into a product line, customer segment, or geography if we believe we can produce an underwriting profit over the long term – sustainability is essential.

# GEOGRAPHY

In terms of geography, as our mandate allows us to do (see reference above to building anywhere in the world!), in 2014 we began to expand our geographic reach to countries outside the U.S. So, in addition to the U.S., we are now operating in Canada and Singapore, and we are on the cusp of launching our business in Hong Kong (January 1 perhaps– fingers crossed!), New Zealand (January 12, I’m told?), and Australia (mid to late January). Not bad for 20 months! And more to come as our “local” teams are charged with growing our footprint within each region – stay tuned! In the U.S., we added three new locations (Stevens Point and Fort Lauderdale for our travel and assistance business, and San Francisco for the core specialty businesses) to our existing five office platform of New York, Chicago, Atlanta, Los Angeles, and Boston. In 2015, as our capabilities and business grow, we will add more people to each of the offices in the U.S., and as always, keep our eyes and ears open for geographic footprint expansion opportunities. Holler if you see an opportunity you think we should go after (not just geography, of course)!

# CUSTOMER AND BROKER ENGAGEMENT

This is an area that is and must remain a priority for us – without the support of our broker partners and customers we simply don’t have a business. And while we have characteristics (“a powerful platform, driven by exceptional people”) that make us unique for a new market entrant, we are 20 months young (and younger outside the U.S. and in certain product lines) and operating in a highly competitive market (this is the case everywhere in the world) – as a result, we need to be in the market telling our story repeatedly. Certainly no one tells our story as well as us – and we should tell it consistently and frequently. Also, spending time with our customers and prospective customers is essential – our rate of success in retaining business and in writing new business is much greater when we meet with the customer – and it’s generally fun and satisfying! In terms of our broker partners, they have the business – we must go and get it and not assume that it will come to us. Always keep in mind that brokers and customers have options, so we must win their business by being better than our competition (both in terms of “what we do” and “how we do it”) and by setting a pace that others can’t sustain (hard work goes a long way!). As we move into 2015, we will add some additional people to the Customer and Broker Engagement team in the U.S., introduce a Customer Relationship Management (CRM) tool, expand our Focus 50 and target account initiatives, continue our engagement with the U.S. based customer advisory board, and look to work with our broker partners on more strategic initiatives to grow our business.

# MARKETING, COMMUNICATIONS, AND BRANDING

In the areas of marketing, communications, and branding our focus will continue to be on getting the word out about who we are and what we’re doing – visibility and awareness are the names of the game – customers, brokers, and other business partners have a lot to think about – our aim is to have them think about us, and for the right reasons - primarily that we can create value for them. As we’ve done in the latter part of 2014, we will continue in 2015 with our efforts to position our business and our people as “thought leaders” – taking advantage of media interviews, published subject matter articles, speaking engagements, and conference sponsorship and participation opportunities. Additionally, we will expand our successful “characteristics” branding campaign (YES, AGILITY, STRENGTH, etc.) by tailoring our ads to target customer audiences, such as industry groups, as well as look to define in greater detail “who we are” – product focus, customer segment focus, and geography focus. Also, we’ll look to refine the look, feel, and importantly, capabilities of both our website and The BEAT in 2015, making sure both continue to add value to our business partners and all of you.

# TECHNOLOGY, OPERATIONS, AND FINANCE

One of our goals is to build a platform that is both efficient (greater productivity and value creation by working smarter) and cost effective (creating an expense advantage) – these are central themes for our technology, operations, and finance groups. On the technology front, we are making a significant investment in The SOURCE – our underwriting and claims system. While the rollout of The SOURCE will take place in stages, with increasing levels of functionality and geographic usage taking place over time, the ultimate objective is to have a technology platform that enables our business growth – expediting the quote, bind, and policy issuance process in support of our defined Underwriting Service Standards; automating claim coverage verification and claim payments; and establishing a “single source of the truth” for data that can be used to manage our businesses. Similarly, our operations group has established consistent processes and workflows that have work being done “by the right people in the right places”, such as the 75 person strong Xceedance team in India, who have proven to be a highly collaborative business partner to us, and who are building alongside us. In 2015, our operations team, including the Xceedance team, will focus on helping to operationalize our businesses outside the U.S., assist with the development and implementation of the CRM tool, continue to refine and adapt our Key Performance Indicator reports, develop a global business continuity plan, and continue to do all of the things that are necessary to make our business feel permanent – secure real estate, phones, computers, office supplies, credit cards – and do it “real time” so new team members are up and running quickly and efficiently. In the finance area, much work was done in 2014 to establish our business outside the U.S., including budgeting, establishing banking relationships, and ensuring we are prepared to comply with local statutory and regulatory requirements for financial reporting. Additionally, much work continued to be done to ensure that we have appropriate expense management guidelines in place to ensure we spend our money “smartly” – creating an expense ratio advantage, and with it, a competitive advantage in the market place – this should be a key differentiator for us.

# CLAIMS

With “Claims as the Product” being a theme that we put forth in 2014, our claims team has established Claims Handling Service Standards that position us to be a market leading claims handling organization – because of the financial strength of Berkshire Hathaway we have the ability to pay covered losses, because of the customer centric approach we take to our business we have the willingness to pay covered losses, and because of the talented and experienced claims team we have assembled we have the ability to affect outcomes – and to do so more efficiently and with more transparency than our competition. With “employee #5” being our head of claims, we put a stake in the ground and said claims handling would be a central part of our value proposition, and it is. Let’s make sure we’re all selling “claims as the product” and using the claims team to support business development activities, and product development.

# LEGAL AND COMPLIANCE

With the growth and expansion of our business (both product and geography), the legal and compliance team is an essential “enabler” within the company, providing valuable guidance on everything from policy wordings, to regulatory matters, to “how to do the right thing” (compliance). In 2014, the legal and compliance team members were heavily involved in the establishment of our businesses outside the U.S., as well as in the creation of many of the above referenced products, including the acquisition of the travel and assistance businesses – working alongside other “functions” and the underwriting teams as business partners. As we move into 2015, it will more of the same for the legal and compliance team as we continue to build, and they function as key members of the “construction” team.

Also, on the topic of compliance, or what I sometimes refer to as “doing the right thing” - we all own it - “doing the right thing” is a responsibility that we all have. “Doing the right thing” drives to the heart of who we are – it’s the stuff that “how we do it” is made of – and it speak to our reputation, which is an incredibly valuable asset that we should develop, nurture, and protect. If at any point in time you are unsure of what “the right thing” is, simply raise your hand and ask for help.

# ACTUARIAL

Much like the other “functions”, the actuarial team is at the heart of much of what we do – product development, geographic expansion, financial reporting. Their work ranges from pricing accounts, to building rating tools, to working on admitted filings, to establishing reserves – “normal” activities for actuaries – to corresponding with and training the Xceedance team – all with a customer centric approach and as effective business partners to our underwriters.

With that said…

As always, there is much more that I could write about in terms of our accomplishments and “the way forward”, but rather than risk losing valuable time in 2015 with all of you reading a very long note from me I shall end it here! But of course end it with a few reminders: First, do remember that building a business requires a lot of hard work – we need an extraordinary effort from everyone on the team if we are to reach our full potential of being “the finest property and casualty company on the planet”. Second, and related to the first point, “winning isn’t normal” – we need to show up every day and be passionate about who we are and what we’re building – if we do, it will be infectious and momentum building! Third, one of our guiding principles is “simplicity” (over complexity) – use it to create value by being a highly responsive team that makes decisions – when combined with our financial assets and our people, it’s a winner! Fourth, let’s “win together” – put the team first, leverage the collective strengths of the group, and collaborate when appropriate. All of this we did well in 2014, and it shows (see above) – let’s carry it forward!

Lastly, let me end (honestly, this is the end!) where I began, which is to thank all of you for your contribution to the success of our company, and to thank you for making this a great experience for me – as I stated at the beginning of this note, I’m proud to be part of the group and to work with all of you. All the best to all of you for a healthy and happy new year!

Onward and Upward!

Sincerely,



Peter Eastwood

President & Chief Executive Officer