Insurance float and loss reserves

Letters: 2007, 2011, 2014 · Difficulty: Intermediate

> *"Insurance float – money we temporarily hold in our insurance operations that does not belong to us – funds $59 billion of our investments." (2007)*

1. An insurer collects $100 million of premiums and incurs $95 million of losses and expenses. What is its underwriting profit ($ millions)? _____

2. On the balance sheet, insurance float appears mainly as…

   A. revenue

   B. stockholders' equity

   C. goodwill

   D. liabilities (loss reserves and unearned premiums)

Source: Warren E. Buffett, Letters to Berkshire Hathaway Shareholders: 2007, 2011, 2014 (berkshirehathaway.com/letters). Quotation © Berkshire Hathaway Inc., all rights reserved; quoted for non-commercial teaching. Numbers in the questions are made up unless stated.