Shareholder Letters: Accounting Themes

Insurance float and loss reserves

Berkshire letters: 2007, 2011, 2014, 2025

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What the Letter Says

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

- Key letters: 2007, 2011, 2014, 2025
- Course fit: ACC250 Ch10 · ACC531 Estimates · Difficulty: Intermediate

Step 1: Collect Premiums First

EX. An insurer collects $100 of premiums in advance for one year of coverage.

Jan 1:	Cash (+A)	100	
	Unearned Premiums (+L)		100

- Like deferred revenue (Ch10): cash now, revenue as coverage is provided.

Step 2: Earn the Premium, Record Losses

Dec 31:	Unearned Premiums (−L)	100	
	Premium Revenue (+R)		100
Dec 31:	Loss Expense (+E)	95	
	Loss Reserve (+L)		95

- Claims of $95 are incurred but **not yet paid** → loss reserve (an estimate).

Step 3: Underwriting Profit and Float

	Amount
Premium revenue	$100
− Losses and expenses	(95)
Underwriting profit	$5

- **Float**: cash held until claims are paid; the insurer invests it meanwhile.
- Underwriting profit → float costs **nothing** to use.

Back to the Letter

- Buffett (2007): float "funds $59 billion of our investments."
- Abel (2025): float stood at **$176 billion** at year-end.
- Loss reserves are estimates → a key audit area (ACC531).

Questions

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)

Sources

- Warren E. Buffett, 2007 letter (berkshirehathaway.com/letters)
- Warren E. Buffett, 2011 letter (berkshirehathaway.com/letters)
- Warren E. Buffett, 2014 letter (berkshirehathaway.com/letters)
- Greg Abel, 2025 letter (berkshirehathaway.com/letters)
- Reading packet and question sheet for this theme

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