

# Best's Rating Report



UNITED STATES LIABILITY INSURANCE GROUP  
A BERKSHIRE HATHAWAY COMPANY

Wayne, Pennsylvania



A++

## Associated With:

**Berkshire Hathaway Inc**

## UNITED STATES LIABILITY INSURANCE GROUP

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AMB#: 000936

Associated Ultimate Parent#: 058334

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Financial Strength Rating of A++ (Superior). The group's Financial Size Category is Class IX.

### RATING UNIT MEMBERS

United States Liability Insurance Group (AMB# 000936):

AMB#	Company	Best's FSR
002541	United States Liability Ins Co	A++
002540	Mount Vernon Fire Ins Co	A++ g
003736	U S Underwriters Insurance Co	A++ g

### RATING RATIONALE

**Rating Rationale:** The rating reflects United States Liability Insurance Group's strong capitalization, outstanding long-term operating profitability and the advantages derived from management's proven underwriting discipline. The rating also recognizes the implicit and explicit financial support provided by its ultimate parent, Berkshire Hathaway Inc. (BRK), and the added financial flexibility afforded by a BRK subsidiary as demonstrated in 2007. These strengths are partially offset by the group's high investment leverage,

which has led to significant swings in realized and unrealized gains and losses over the last several years. Historically, the group also relied on a single method of distribution, the professional wholesaler. In mid-2010, the group began to expand its distribution to include selected retailers. While this strategy will lessen the dependence on one distribution channel, there is potential channel conflict associated with this initiative. The outlook reflects the group's strong risk-adjusted capitalization, outstanding historical operating profitability and favorable near-term and long-term prospects.

As of January 1, 2007, each member of the group entered into a 50% loss portfolio transfer agreement and a 50% quota share reinsurance agreement with an affiliate, National Indemnity Company (NICO), an indirectly owned subsidiary of BRK. The effect of these transactions led to a substantial reduction in the group's underwriting leverage, which then helped to facilitate the extraordinary stockholder dividend taken that year.

Over the years, the group has consistently generated strong operating results that far exceed composite norms. This significant advantage stems from the group's commitment to low hazard small business; stable product offerings; management's strict underwriting and price discipline; and customer-centric philosophy. The group also benefits from the operating flexibility afforded through its use of admitted and non-admitted paper, its continued focus on service, and its effective sales and marketing strategy. The rating further recognizes management's historically conservative loss reserving strategy as well as prudent catastrophe management philosophy, which is modeled to a 1-in-100-year net probable maximum loss (PML) event equal to less than 1% of reported policyholders' surplus.

**Best's Financial Strength Rating: A++**

**Outlook: Stable**

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## KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pretax Operating Income	Total Admitted Assets	Policy- holders' Surplus	Comb. Ratio
2006	332,221	116,038	1,313,789	479,353	81.6
2007	-207,837	109,146	750,070	296,095	167.5
2008	177,881	73,180	743,261	281,505	70.1
2009	165,578	57,087	768,172	311,435	80.0
2010	157,382	61,740	784,909	357,404	84.8

(\*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

## BUSINESS REVIEW

Founded in 1951, United States Liability Insurance Group is a leading specialty lines insurer. Its operations are conducted throughout the United States. The group's overall split between admitted and non-admitted business is maintained at 47% versus 53%, respectively. The group consists of three companies: United States Liability Insurance Company, Mount Vernon Fire Insurance Company and U.S. Underwriters Insurance Company. Business is placed in one of the companies based on licensing, rate and form filings. Prior to mid-2010, all business was written through approximately 175 professional wholesale brokers with roughly 395 locations throughout the U.S. In June 2010, the group began expanding its distribution system to include selected retail agents.

The group's operations are classified under 13 distinct underwriting teams. These teams include nine regional teams (each of which write all 63 general liability, property and package products), professional liability, personal lines, non-profit package and liquor liability. Within these profit centers, there are 109 products with an average policy premium less than \$1,500. The two largest components of the group's business are professional liability and general liability. The professional liability segment offers various errors and omissions (E&O) coverage for specified professions, as well as directors and officers (D&O) liability coverage and employment practices liability coverage. The group offers a variety of general liability coverages for specialized exposures, including child care, artisan contractors, vacant buildings, bars and taverns and janitorial services. The group offers a broad range of property coverages that include habitational, other buildings and premises business, builder's risk for commercial and residential properties and inland marine. Package coverage is offered on various exposures, including habitational, vacant buildings, bars and taverns, child care and lessor's risk. The liquor liability team is focused on providing liability coverage for bars, taverns, restaurants and retail stores. The liquor liability coverage may be packaged with general liability coverage. The group provides personal lines coverage in the form of personal umbrella, dwelling liability and fire, excess personal auto, excess personal liability, and excess watercraft and recreational vehicles. The group also provides non-profit package policy coverage for nonprofit entities, such as foundations and community associations.

United States Liability Insurance Company, Mount Vernon Fire Insurance Company and U.S. Underwriters Insurance Company entered into loss portfolio agreements of reinsurance effective January 1, 2007, with an affiliate, National Indemnity Company (NICO). Under these agreements, NICO assumed 50% of the companies' outstanding net loss and loss adjustment expense reserves at December 31, 2006, equaling \$112.5 million, \$112.8 million, and \$70.9 million,

respectively. These amounts were paid on March 15, 2007. The aggregate limit on the loss portfolio cessions is three times the consideration paid by the companies. The companies also entered into quota share agreements of reinsurance effective January 1, 2007, with NICO. Under these agreements, NICO assumed 50% of the companies' unearned premium reserves as of December 31, 2006, and NICO assumed 50% of all premiums written and earned thereafter in return for assuming 50% of all losses and loss adjustment expenses incurred after December 31, 2006, by the companies and all underwriting expenses associated with the ceded subject premium. The ceded premiums net of paid losses and loss adjustment expenses and associated underwriting expenses are settled quarterly in arrears. The agreements are subject to an aggregate ceded limit for each calendar accident year equal to three times the earned premium ceded by the companies for that calendar accident year.

## 2010 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Oth Liab Occur	161,820	75,157	47.8	16.0	179,818
Oth Liab CM	126,948	58,592	37.2	29.2	110,084
Fire	50,816	20,231	12.9	53.8	6,789
All Other	7,298	3,403	2.2	25.4	5,499
Totals	346,882	157,382	100.0	26.0	302,190

## HISTORY

The United States Liability Insurance Company was incorporated on April 12, 1867, under Pennsylvania laws as the United States Plate Glass Insurance Company of Philadelphia. The title was changed in 1939 to the United States Plate Glass and Liability Insurance Company and in 1941 to the United States Liability Insurance Company of Philadelphia. The words "Of Philadelphia" were deleted from the name on May 8, 1951. The company was dormant from 1941 to May 17, 1951. Active operations were resumed when the Berry family acquired control of the company's charter in 1950. Mount Vernon Fire Insurance Company was organized on September 18, 1958, also under the laws of Pennsylvania. It began business on December 15, 1958. U.S. Underwriters Insurance Company was incorporated under the laws of Delaware on January 10, 1972. It began business on December 27, 1977. On October 30, 1992, the company redomesticated from Delaware to North Dakota.

## MANAGEMENT

Financial control of United States Liability Insurance Company since May 27, 1971, has rested with U.S. Investment Corporation, a Pennsylvania holding company. On August 8, 2000, 100% of the stock of U.S. Investment Corporation was acquired by Berkshire Hathaway Inc. All of the outstanding capital stock of Mount Vernon Fire Insurance Company is owned by United States Liability Insurance Company. All of the outstanding capital stock of U.S. Underwriters Insurance Company is held by Mount Vernon Fire Insurance Company. The three insurers maintain joint administrative offices, and administration of the companies' affairs is under the direction of the same management.

# Best's Rating Report



Consolidated Balance Sheet		
Admitted Assets (\$000)		
	12/31/2010	%
Bonds .....	\$348,159	44.4
Common stock .....	216,817	27.6
Cash & short-term invest .....	132,958	16.9
Investments in affiliates .....	0	0.0
Total invested assets .....	\$697,933	88.9
Premium balances .....	49,963	6.4
Accrued interest .....	4,224	0.5
All other assets .....	32,790	4.2
Total assets .....	\$784,909	100.0
Liabilities & Surplus (\$000)		
Loss & LAE reserves .....	\$302,190	38.5
Unearned premiums .....	90,596	11.5
All other liabilities .....	34,720	4.4
Total liabilities .....	\$427,506	54.5
Capital & assigned surplus .....	5,200	0.7
Unassigned surplus .....	352,204	44.9
Total policyholders' surplus .....	\$357,404	45.5
Total liabilities & surplus .....	\$784,909	100.0

## Why is this Best's® Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Best's Financial Strength Ratings are assigned according to the following scale:

### Secure Best's Financial Strength Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

### Vulnerable Best's Financial Strength Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

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