

Key Influencer: Ajit Jain

Smart Investment

Hiring untested
Ajit Jain paid off for
Berkshire Hathaway.

by Kate Smith



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Warren Buffett remembers the day he met Ajit Jain. It was a Saturday in late 1985 when Jain first walked into the Omaha office of Berkshire Hathaway.

They spent hours talking, the billionaire investor from Nebraska and the unknown from India. By the end of the conversation, Buffett had learned two things: Ajit Jain knew nothing about insurance, and he was exactly the man Buffett wanted to build Berkshire Hathaway's reinsurance division.

"After talking to him for a couple of hours, I knew that we'd struck gold, and that he would be a great guy to run our reinsurance business," said Buffett, the chairman and chief executive officer of Berkshire Hathaway.

Jain turned out to be one of Buffett's best investments.

Over the past three decades, Jain has created a reinsurance business that has generated billions of dollars in float, as well as an underwriting profit, for Berkshire Hathaway. His smart risk-taking and disciplined decision-making have made him invaluable to Buffett's operations.

"He has made Berkshire Hathaway tens of billions of dollars," Buffett said. "My partner at Berkshire, [vice chairman] Charlie Munger, and I have told the shareholders if we are in a boat that's sinking and they can swim and save only one of us, save Ajit.

"He's hugely important to Berkshire. It's impossible to overstate that."

Jain, who is widely considered one of the front-runners to succeed Buffett, has earned a reputation for taking on liabilities that others can't or won't. With an enormous balance sheet and a willingness to accept risk for the right price, Jain has orchestrated some of the most notable deals—such as assuming legacy liabilities of Equitas and Brandywine—in the history of the insurance industry.

For years, he was the man insurers turned to when they needed deep pockets to get out of deep problems.

"Whenever the industry has some challenges, Ajit gets involved," said Rolf Tolle, Lloyd's first franchise performance director and a member of the board of QBE.

Though he may not be a household name like his boss, within the reinsurance industry Jain is a legend.

"He's one of the most intelligent leaders in the industry and he commands a sizable wallet," Robert DeRose, a vice president at A.M. Best, said. "He has a huge balance sheet. He has the ability to do transactions in the industry that no one else can do or can even come close to doing.

"For the large portfolio, legacy liabilities, he really is the go-to person."

Calculated Risks

Jain never set out to be an insurance executive. He is an engineer by trade.

Born in Odisha, on the eastern coast of India, he earned a degree in mechanical engineering from the Indian Institute of Technology before joining IBM as a salesman in his home country. When IBM discontinued operations in India, Jain moved to the United States to study business, earning his MBA from Harvard.

He began working for McKinsey & Company. His boss at McKinsey, Michael Goldberg, left to join Berkshire's insurance division in 1982. A few years later, Goldberg recruited Jain and introduced him to Buffett.

Buffett could sense straight away that Jain was a disciplined risk-taker. It's the reason Buffett wanted him, despite his lack of insurance background.

"I knew he was a very, very unusual fellow in terms of being smart, being willing to take risks without taking foolish risks, and having a mind that's very rare," said Buffett, who quipped that Goldberg was "elevated to St. Mike" for his role in discovering Jain. "He understands how to keep you out of major trouble, but also is quite willing to do things that look very venturesome to most people."

Jain's approach to the asbestos crisis is one such example. When others in the industry struggled under the weight of long-tail liabilities related to asbestos and environmental pollution, Jain found opportunity in the crisis.

In 1999, Jain orchestrated a deal with Ace to offer stop-loss protection in the event that Brandywine, a runoff company Ace acquired through Cigna, did not have enough reserves to cover its asbestos claims. That contract brought in \$1.25 billion in premiums. In 2007 he engineered a deal with Equitas, wherein the Lloyd's runoff agent transferred its liabilities to Berkshire Hathaway's National Indemnity Company for a single premium of \$7.1 billion. And in 2010 he put together a deal in which CNA would transfer the asbestos and environmental pollution liabilities of one of its subsidiaries, Continental Casualty, to National Indemnity for \$2 billion.

"He provided exit strategies for entities that were feeling tremendous pain from those losses," DeRose said.

Although Jain has the funds to do such large deals, he is prudent in his approach to them.

"The sheer power of his balance sheet allows him to do things others can't," Tolle said. "At the same time, he won't just do them. When the price is right, he writes big lines. When the price isn't right, he will walk away."

Jain, who declined to be interviewed for this story, has proven that point in the past few years. With the reinsurance market softening, interest

rates dropping and alternative capital flooding the market, the big deals stopped being as lucrative.

“Fifteen years ago when somebody needed capital, they went to Berkshire for capital support through a reinsurance arrangement,” John Andre, a group vice president at A.M. Best, said. “Now there are all these other sources of capital. Ajit has competition now. He won’t give reinsurance away for too low a price, but he still wants float.”

And he is finding new ways to get it.

Evolving Strategy

Buffett can count the people he talks to daily. His wife. His assistant. Maybe a few of the two dozen folks he keeps on staff at Berkshire’s Nebraska headquarters. And Jain.

“We’ve got 70 or 80 companies, but he’s the only manager I talk to every day,” Buffett said. “Some of them I don’t even talk to once a year. There’s no one I talk to more than once a week. Except Ajit.”

“I talk to him every day virtually. It isn’t because I’m supervising him or anything like that. I’m just interested in what he’s doing.”

Jain’s business is constantly evolving.

“A great many people just sort of get locked into doing the same thing today that they did yesterday,” Buffett said. “Ajit is just the opposite. He starts every day thinking about what makes sense on that day and for the future.”

In recent years, that has meant focusing more on the insurance side of the business. Four years ago he brought to Buffett the idea of acquiring Guard, a workers’ compensation and commercial property/casualty company.

He also orchestrated the launch of Berkshire Hathaway Specialty Insurance, which in three years has grown from a staff of four to more than 600. Peter Eastwood, the president of Berkshire Hathaway Specialty and former head of Lexington, approached Jain with the idea of starting a Berkshire-backed excess and surplus carrier, Buffett said. Jain encouraged Berkshire to support the venture.

“That’s Peter Eastwood’s baby,” Buffett said. “But Ajit is the guy that brought the people together and worked out the whole business plan. He’s remarkable. There’s really nobody like him.”

With Berkshire Hathaway Specialty, Jain again found another source of float for Buffett. The young unit had an annual premium volume of \$1 billion in 2015.

“He moved billions over to that balance sheet and hired a strong seasoned team, and they’ve

put on quite a bit of business in the last few years,” Andre said. “Now he still gets float. He has to do it differently—this business is much more transactional—but he has still provided float.”

Idea Factory

Buffett refers to Jain, 64, as an “idea factory.”

“His mind likes to stay active,” Buffett said. “He would not be good at playing shuffleboard in Florida.”

When Jain isn’t dreaming up his own new ideas, he is vetting others’.

“It’s known throughout the world that if you go to him with an idea—a big idea—you’ll get an answer,” Buffett said. “It may not be the answer you want, but you’ll get it. You’ll get it fast. Nothing is too big for us to do.”

“A certain type of person really likes to work for him, too. It’s a little like being on Vince Lombardi’s Green Bay Packers or something like that. The kind of person who likes a bureaucratic organization won’t last five minutes with him, but if you like to get a lot of responsibility and to be able to do things [you’ll do well]. So many organizations are just going through the motions every day, but that’s just exactly the opposite of what he’s built.”

Looking back, even Buffett is surprised by the operation Jain has built.

“I knew he would do a terrific job, but I had no notion that we would ever get to where we are,” Buffett said. “Starting from scratch, he has built a reinsurance company that in terms of the way we would measure it, I think is the best the world has seen. Sure, we’d get arguments from some of our competitors, but I wouldn’t trade his operation for anybody else’s. I wouldn’t trade him for anybody else.”

Jain’s responsibilities at Berkshire are continuing to expand. When Tad Montross announced he would be

retiring from his position as chief executive officer of Gen Re, Berkshire determined that his replacement would report to Jain rather than Buffett.

The decision reignited speculation about Jain as a potential successor to Buffett.

Berkshire has kept its succession plan under wraps, but Jain is thought to be on a short list of candidates along with Greg Abel, who heads Berkshire’s energy subsidiary.

At 85, Buffett said he feels great and has no plans to retire. When asked about handing the reins over to Jain, he doesn’t quite tip his hand.

“I’ll put it this way,” Buffett said. “There’s no job in business that he wouldn’t be excellent at.”



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