Buffett's Berkshire Profits From Storm-Ravaged Gulf

By George Stein and Josh P. Hamilton

Nov. 3 (Bloomberg) -- When Penn National Gaming Inc. couldn't get enough property insurance after Hurricane Katrina wrecked two of its Mississippi casinos, the company turned to Warren Buffett's Berkshire Hathaway Inc. and wound up with quadruple the annual premiums.

Berkshire charged Wyomissing, Pennsylvania-based Penn National more than $20 million to cover $200 million of potential damage at 16 gambling sites and racetracks stretching from the U.S. Gulf Coast to Maine. Since the policy took effect in August, there have been no claims.

``If I could have done it without Berkshire, I would have,'' said Christina Reisinger, Penn National's director of risk management. ``The price was more than I ever expected to be paying in my lifetime.''

The insurance industry's $40.6 billion in Katrina losses provided Buffett, Berkshire's chairman and chief executive officer, with the opportunity to profit from risks that his competitors shunned. The Omaha, Nebraska-based company charged as much as 30 cents for every dollar of coverage, said John Bullock, an insurance broker for Willis Group Holdings Ltd.

``They say, `We can write your business, take it or leave it,''' said Bullock, head of Willis's Mississippi office. ``They had a lot of takers.''

The strategy may have contributed about $200 million to Berkshire's third-quarter earnings, said Gary Ransom, an analyst at Fox-Pitt Kelton Inc. in Hartford, Connecticut. The company, which reports results later today, may say profit before investment gains and losses surged to $2.07 billion, or $1,344 a share, he estimated. A year earlier, after $1.95 billion in storm costs, it earned $106 million, or $69, on that basis.

Buffett, 76, wasn't available to be interviewed, said his assistant, Debbie Bosanek. In May, he said he would ``do more than anyone else if the price is right'' and was willing to lose $6 billion on a single disaster.

Berkshire got about half its second-quarter profit from insurance and reinsurance units, including National Indemnity Co., General Re Corp.

and Geico Corp., according to its financial statements. National Indemnity, which sells coverage to policyholders as well as other insurers, seeks out markets where it can name its price, said Kevin Callahan, a portfolio manager at Century Capital Management in Boston.

``Their hallmark is to be the insurance provider of last resort," said Callahan, who helps manage $2 billion, including Berkshire shares. ``They'll probably continue to play, but maybe not as actively as they have been during 2006. When pricing isn't attractive, they hit the exits pretty quickly."

The public school system in Florida's Miami-Dade County is another Berkshire client paying higher rates this year. Berkshire is in a group of insurers that charged the state's second-largest property owner almost $30 million for $200 million of coverage, said Scott Clark, risk and benefits officer for the school system. Last year, Miami-Dade paid less for $700 million of protection.

``When you run out of capacity, Berkshire always has it," said Clark, who is paying Berkshire $5.8 million for a $32.5 million share of the policy. ``We had no other place to go."

While Berkshire provided coverage, competitors including American International Group Inc. and Ace Ltd. lowered payout limits or raised deductibles for wind damage. AIG's Lexington Insurance Co. said in June it wasn't offering more than $25 million of property protection per hurricane-prone policyholder.

In Penn National's case, its former insurers have paid about $125 million in claims from its Bay St. Louis and Biloxi properties, Reisinger said. Berkshire's $200 million in coverage, plus $250 million more of protection from a group of companies including Ace and Lloyd's of London, cost almost $28 million in premiums. Last year, Penn National spent $7 million.

``Berkshire stepped up to the table," said Reisinger, who declined to identify the former insurers. ``While it was expensive, it was a quality product."

Most insurers raised rates in vulnerable coastal areas, often charging 10 cents for every dollar of coverage, said Bullock. Third-quarter profit for the 23 insurers and brokers in the Standard & Poor's 500 Index was poised to more than triple, according to a Thomson Financial survey of analysts last month.

Berkshire's stock, which reached $100,000 last month, has advanced 9.6 percent since Oct. 3, when researchers at Colorado State University said the greatest danger from Atlantic Ocean hurricanes this year was over. The index of S&P's insurers and brokers gained 1.1 percent during the period.

The company's A shares rose $894 to $105,000 in New York Stock Exchange composite trading.

Buffett, the world's second-richest man after Microsoft Corp. founder Bill Gates, owns almost a third of the stock himself. In June, he pledged to give most of his stake, then valued at more than $43 billion, to Gates's charitable organization and four family foundations over the coming years.

Berkshire, which owns companies ranging from utilities to candy makers, ended June with $97 billion in shareholder equity. Buffett created the $161 billion holding company over four decades, using insurance premiums to invest in dozens of other industries.

``That's the genius of what Buffett has built,'' said Keith Trauner, who manages $2.4 billion and holds Berkshire shares at Fairholme Capital Management in Short Hills, New Jersey. Berkshire is ``one of the very few out there that can take advantage of a situation when almost the entire rest of the industry is hurting.''

--Editor: Stock (scc)

Story illustration: To graph the relative performance of Berkshire shares, see {BRK/A US COMP KIX SPX D}. For information on Warren Buffett, see {BBDP 1387055}. For today's top insurance news, see {INSN}. For more information useful to the insurance industry, click {BINS}.

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