

State of Wisconsin Office of the Commissioner of Insurance

IN THE MATTER OF

The Acquisition of Control of  
Capitol Indemnity Corporation and Capitol Specialty Insurance Corporation

by

Berkshire Hathaway, Inc., O&M Acquisition Corp., and Warren E. Buffet, an individual

Case Nos. 22-C44513 and 22-C44514

Date: July 20, 2022

Time: 11:30 a.m.

**PREFILED DIRECT TESTIMONY OF**

**BRUCE J. BYRNES**

**A. Introduction**

My name is Bruce Byrnes. I am Vice President, Senior Counsel and Chief Compliance Officer of the Berkshire Hathaway group of insurance companies and I am appearing today as a representative of Berkshire Hathaway, Inc., (“BHI”, and together with its subsidiaries “Berkshire Hathaway”). I have been authorized by BHI, O&M Acquisition Corp. (“Merger Sub”), and Mr. Warren E. Buffett (“Mr. Buffet,” and together with BHI and Merger Sub, the “Applicants”) to speak on their behalf in connection with their proposed acquisition of control of Capitol Indemnity Corporation (“CIC”) and Capitol Specialty Insurance Corporation, (“CSIC,” and, together with CIC, the “Domestic Insurers”), each a Wisconsin-domiciled insurance company.

I have been Vice President, Senior Counsel and Chief Compliance Officer of the Berkshire Hathaway group of insurance companies since 2013. In this role, I am responsible for coordinating insurance regulatory and compliance matters for Berkshire Hathaway insurance operations around the world. This includes representing Berkshire Hathaway insurance companies in proceedings before state insurance regulatory authorities. Prior to joining Berkshire, I was the General Counsel of The Navigators Group from 2009 to 2013. From 2001 through 2009, I was the general counsel of a global reinsurer and an insurance focused private equity fund. I practiced law in various large New York firms between 1993 through 2001, where my practice was focused on representing insurance industry clients. I am admitted to practice law in the states of New York and New Jersey and admitted as house counsel in Connecticut.

In my testimony, I would like to provide background about the Applicants, describe the proposed transaction by which the Applicants seek to acquire control of the Domestic Insurers, and explain why we believe this transaction benefits the Domestic Insurers, its policyholders and the insuring public of Wisconsin. I have been advised by my counsel that it is important that I touch on each of the relevant standards that are set out in the relevant Wisconsin statute (Wis. Stat. § 611.72(3)(am)1. to 5.), and I will endeavor to do so in this testimony. I also intend to present

myself virtually at the public hearing to be conducted by the Department on July 20, 2022 in order to answer any questions that may remain.

**B. Background Regarding the Applicants**

BHI is a holding company owning subsidiaries that engage in a number of diverse business activities, including substantial insurance operations. Included in the group of subsidiaries that underwrite insurance and reinsurance is GEICO, the second largest private passenger auto insurer in the United States and two of the largest reinsurers in the world, General Re and Berkshire Hathaway Reinsurance Group. As of December 31<sup>st</sup>, 2021, BHI had total assets of approximately \$958.8 billion and total shareholders' equity of approximately \$514.9 billion. BHI stock is publicly traded on the New York Stock Exchange.

Merger Sub was formed as a wholly-owned, direct subsidiary of BHI for the purpose of facilitating the Applicants' acquisition (the "Acquisition") of the Alleghany Corporation ("Alleghany"), of which the Domestic Insurers are each respectively directly or indirectly controlled subsidiaries.

Mr. Buffett has been a director of BHI since 1965, and served as the Chairman and Chief Executive Officer of BHI since 1970. He is the only person who owns more than ten percent (10%) or more of the voting power of the outstanding shares of BHI. As of March 2, 2022, Mr. Buffett owns shares equivalent to approximately 32% of the voting power of the outstanding shares of BHI.

**C. The Proposed Transaction**

I am familiar with the proposed transaction by which the Applicants seek to acquire control of the Domestic Insurers, and, having reviewed the Form A Statement submitted by the Applicants in connection with the proposed transaction, I can confirm that the Form A Statement, as supplemented, accurately describe the proposed transaction.

The Applicants propose to acquire control of the Domestic Insurers by way of a merger (the "Merger") of Merger Sub with and into Alleghany, with Alleghany as the surviving entity ("Alleghany").

Following completion of the Merger, BHI will directly own and control shares representing 100% of the issued and outstanding shares of Alleghany, which, in turn, will indirectly own all the capital stock of the Domestic Insurers.

The purpose of the proposed transaction is to enhance BHI's existing worldwide insurance operations.

Our expectation is that the proposed transaction will close in the fourth quarter of 2022, subject to receipt of required regulatory approvals.

**D. Statutory Criteria**

The proposed transaction will not violate the law or be contrary to the interests of the insureds of the BHI insurance group or the Domestic Insurers. To the contrary, the Acquisition has been

structured to comply with applicable law and will have a positive effect on current insureds and the insurance buying public. As I will testify to below, the Applicants have significant experience in the insurance and financial services sectors. The Domestic Insurers will be managed by a financially sound organization, with deep experience and a proven track record in the operation of insurance companies, and without change to their operations. Additionally, as discussed below, the proposed transaction satisfies the statutory criteria for approval outlined in Wis. Stat. s. 611.72(3)

**The Domestic Insurers' Licenses**  
**Wis. Stat. § 611.72(3)(am)1.**

The Domestic Insurers are each currently licensed in the State of Wisconsin, and I do not foresee that the proposed transaction will affect the Domestic Insurers' Wisconsin licenses. Following the closing, the Domestic Insurers will continue to be able to satisfy all requirements for the issuance of their insurance licenses in the State of Wisconsin. In particular, the Domestic Insurers will be able to comply with minimum capital and surplus requirements set forth under Wisconsin law. As reflected in the projections submitted as confidential exhibits to the Form A, CIC and CSIC will all have policyholder surpluses that exceed risk-based capital requirements. Additionally, following the consummation of the proposed transaction the Applicants have no intention of causing the Domestic Insurers to take any action that would inhibit their abilities to satisfy the requirements for licensures under Wisconsin insurance law.

**Effect on Competition**  
**Wis. Stat. § 611.72(3)(am)2.**

As more fully described in the Applicants' Form A Statement and the Competitive Impact Statement that was included as a confidential exhibit to the Form A, the effect of the proposed transaction will not be to substantially lessen competition in insurance or tend to create a monopoly in Wisconsin.

**Financial Condition of the Applicants**  
**Wis. Stat. § 611.72(3)(am)3.**

The financial condition of each Applicant is such that it would not jeopardize the financial stability of the Domestic Insurers or prejudice the interest of their respective policyholders. The Applicants are part of a large and financially strong group of companies that is very well capitalized. Further evidence of the Applicants' strong financial position is reflected in the Applicants' financial statements that were submitted to the Commissioner as exhibits to the Applicants' Form A Statement.

**Applicants' Plans for Domestic Insurers**  
**Wis. Stat. § 611.72(3)(am)4.**

The Applicants have no present plans or proposals to liquidate the Domestic Insurers, sell their assets (other than such sales of assets as may be contemplated in the ordinary course of the Domestic Insurers' business), consolidate or merge them with any person, or make any material

changes to the Domestic Insurers' corporate structure or management. Following the closing of the Transaction, the Domestic Insurers are expected to operate their businesses in the same manner and write the same lines of business as they currently do. The Applicants also have no present plans or proposals to change the current directors and executive officers of the Domestic Insurers, other than resignations or retirements in the normal course of business.

**Competence and Integrity**  
**Wis. Stat. § 611.72(3)(am)5.**

As noted earlier in my testimony, the Applicants have no current plans to make any changes to the directors and executive officers of the Domestic Insurers. With respect to the Applicants themselves, the BHI insurance group already includes over 40 insurers that are licensed to transact insurance or reinsurance business in Wisconsin. We believe the competence, experience, and integrity of the BHI management team is reflected in the strong reputation of these insurers and the BHI insurance group as a whole. Further evidence is reflected in the biographical information for the directors and executive officers of the Applicants that were submitted to the Commissioner as confidential exhibits to the Applicants' Form A Statement. For these reasons, the competence, experience, and integrity of the persons who will control the operations of the Domestic Insurers after the proposed transaction closes will in no way be adverse to the policyholders of the Domestic Insurers or the interest of the public.

**E. Conclusion**

In closing, I want to thank Commissioner Houdek, Hearing Examiner Malm, Mr. Christopher J. Martin, and the Wisconsin OCI for their prompt attention to this matter and allowing me to present this written testimony. BHI looks forward to receiving approval of this proposed transaction and working with the Commissioner in the future. Thank you for your consideration of this matter.