S&P Global
Market Intelligence

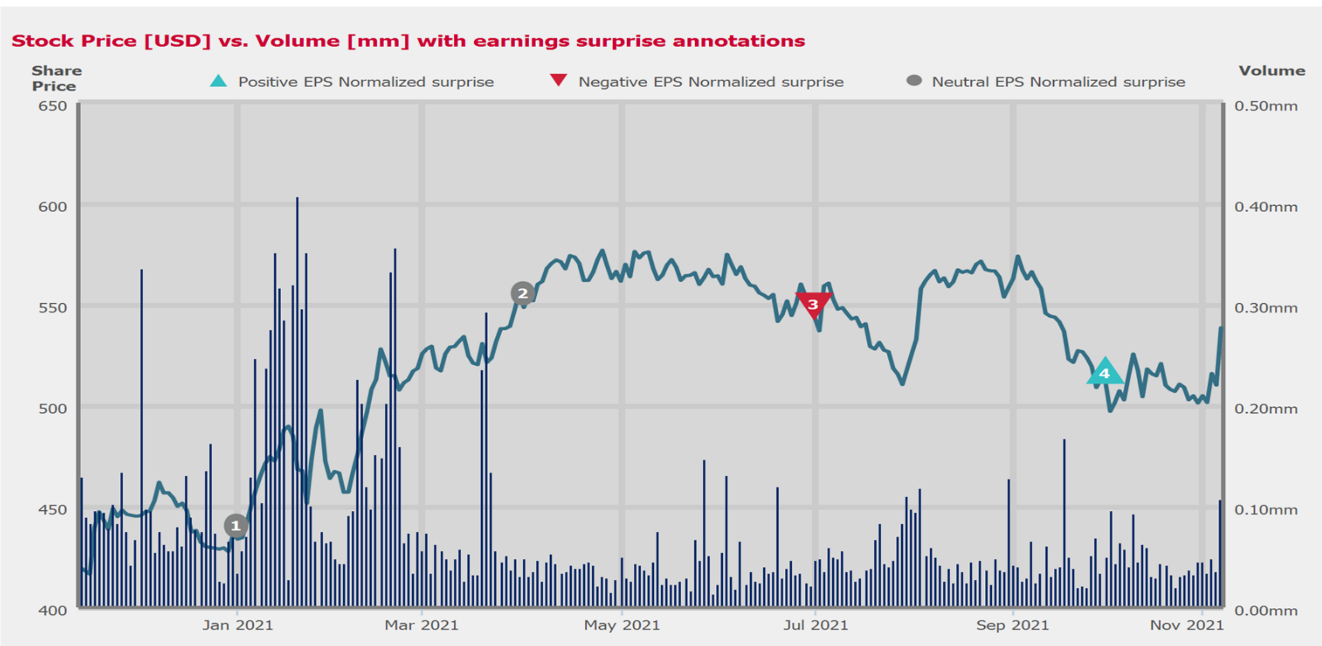
Fairfax Financial Holdings Limited TSX:FFH
FQ3 2021 Earnings Call Transcripts

Friday, November 05, 2021 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.60	5.93	64.72	11.48	55.37	NA
Revenue (mm)	5631.05	6710.40	19.17	5983.20	23773.67	NA

Currency: USD
Consensus as of Nov-05-2021 8:11 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	4.36	(1.84)	NM
FQ1 2021	5.53	(1.38)	NM
FQ2 2021	6.30	5.32	1 (15.56 %)
FQ3 2021	3.60	5.93	2 64.72 %

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Call Participants

EXECUTIVES

Derek Bulas
Associate Vice President of Legal

Jennifer J. S. Allen
VP & CFO

Peter S. Clarke
VP & COO

V. Prem Watsa
Founder, Chairman & CEO

ANALYSTS

Mark Alan Dwelle
RBC Capital Markets, Research Division

Unknown Analyst

ATTENDEES

Unknown Attendee

Presentation

Operator

Good morning, and welcome to Fairfax's third quarter results conference call. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Your host for today's call is Prem Watsa, with opening remarks from Mr. Derek Bulas. Mr. Bulas, please begin.

Derek Bulas
Associate Vice President of Legal

Good morning, and welcome to our call to discuss Fairfax's 2021 third quarter results. This call may include forward-looking statements. Actual results may differ perhaps materially from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors. The most foreseeable of which are set out under risk factors in our Base Shelf Prospectus, which has been filed with Canadian securities regulators and is available on SEDAR, and which now include the risk of adverse consequences to Fairfax's business, investments and personnel resulting from or related to the COVID-19 pandemic. Fairfax disclaims any intention or obligation to update or revise any forward-looking statements except as required by applicable securities law.

I'll now turn the call over to our Chairman and CEO, Prem Watsa.

V. Prem Watsa
Founder, Chairman & CEO

Thank you, Derek. Good morning, ladies and gentlemen. Welcome to Fairfax's 2021 Third Quarter Conference Call. I plan to give you some of the highlights, then pass the call to Peter Clarke, our Chief Operating Officer, to comment on our insurance and reinsurance operations; and Jen Allen, our Chief Financial Officer, to provide some additional financial details.

We've had record earnings of almost $2.5 billion in the first 9 months of 2021. It already exceeds our highest annual earnings ever of $2 billion. Book value per share grew by almost 20%, including our $10 per share dividend. Our combined ratio for the 9 months was 97%. The third quarter was impacted by Hurricane Ida and the German floods, European floods, with a combined ratio of 101%.

Peter will give you more details on that. Our gross premium for the 9 months were up 23% and 25% in the third quarter, with steady rate increases across all our major lines of business with the exception of workers' compensation. Insurance and reinsurance business is growing rapidly all over the world. And we expect to write about $23.5 billion gross premiums in 2021, up about 24% from 2020.

All through 2020 last year at our conference calls, I had highlighted to you that as shown on Page 188 of our 2019 annual report, because that was all that was available then, or now page 2001 of our 2020 Annual Report, there were only 4 years out of 34 years when we had a negative investment return. In each case, we rebounded significantly the next year. Just to highlight that again, the 4 years were 1990, we were down 4.4%; 1991, up 14.6%; in 1999, we were -- the whole investment portfolio was down 2.7%; in 2000, the next year, it was up 12.2%. In 2013, the whole investment portfolio was down 4.3%. 2014, the next year, up 8.6%. And finally, in 2016, the portfolio was down 2.2%. And '17, the following year, up 6.8%. Only 4 out of 34 years.

And each time investors worried about our investments, investments results were much better than expected. In the first quarter of 2020 we had a negative 3.6% return on our investment portfolio, but by the end of the year, our investment returns more than reversed. And we ended the year with a positive return of 2.4%. In the first 9 months of 2021 our investment return was 7%, which resulted in a total investment return of $3.3 billion. You will of course note that half of the investment portfolio was earning nothing because it is in cash and short-term securities.

History has shown that our returns are very lumpy. And this has worked for us over the last 35 years. We have never focused on steady quarterly earnings quarter-by-quarter, even though the stock market really loves it currently.

Here's how our major common stock positions that are mark-to-market in our financial statements did in the first 9 months of 2021. BlackBerry was up 47%. Stelco was up 64%. Kennedy Wilson, 17%. IIFL Wealth, 56%. You take the top 20 common stock positions which are mark-to-market in our financial statements, they were up on average about 22%. Not included in the above are associates and consolidated investments, which are not mark-to-market. Here's how the large positions did in the first 9 months of 2021, Eurobank, up 38%. Atlas Corp, up 40%. Quess, up 68%. Resolute, up 82%. Fairfax India, up 36%. Recipe, up 17%. And Thomas Cook, up 39%. On average for that group of names, up 32%.

Our book value per shares, I said, was up 20% in the first 9 months of 2021. However, this does not include the increase in our equity-accounted investments and our consolidated investments, which are not mark-to-market. As we mentioned in our press release, if we did mark them to market, we would add $483 million or $19 per share on a pretax basis being the excess of fair value over carrying value as of September 30, 2021.

Also as mentioned, Digit with closing of its share issuance and IRDA approval to increase our ownership about 49% would add approximately $1.1 billion or $37 per share. If these are added to our book value, our book value would be in excess of $600 per share. As I have said previously, long-term value investing has gone through a very difficult period for about a decade now. Valuations of value-oriented stocks versus growth stocks, particularly technology, have never been so extreme, exceeding even the extremes of the dot-com era in 2000.

As the economy continues to normalize, we expect a reversion to the main with value-oriented stocks coming to the fore. We continue to believe our common stock positions continue to be undervalued, even though they've gone up significantly as I just mentioned. I remind you that in the 3 years, 2000 to 2002, the downturn for the 3 years, 2000 to 2002, most stock market indices in the United States, Canada and Europe were down about 50%, but our stock portfolio was up 100%.

On August 23, Fairfax completed the sale of RiverStone Barbados, receiving total consideration of $696 million.

As part of that transaction, we had received a contingent value instrument for potential proceeds for up to $235 million based on future performance of RiverStone in the U.K., which we have not recorded any value on. We wish Luke and the entire RiverStone U.K. team all the best going forward. We expect them to do very well.

We continue to have approximately $1.5 billion at the holding company, predominantly in cash and short-term securities. Please note, our cash in the holding company is to meet any and every contingency that Fairfax might face. We are not making any long-term investments with this cash other than to support our insurance and reinsurance operations.

I'll now pass the call to Peter Clarke, our Chief Operating Officer, to comment on our insurance and reinsurance operations. Peter?

Peter S. Clarke
VP & COO

Thank you, Prem. Our company has continued to produce outstanding underlying results. The 25% growth in gross premium written over the third quarter of 2020 was once again very strong, generating gross premiums of approximately $6 billion in the quarter. We produced a combined ratio of 101%, or an underwriting loss of $47 million in the quarter, which included $605 million of catastrophe losses, principally from Hurricane Ida and the European floods. Total catastrophe losses added 13.9 points to the combined ratio in the quarter. By comparison, in the third quarter of 2020 we produced an underwriting profit of $53 million or a 98.5% combined ratio, reflecting catastrophe losses of $219 million or 6 combined ratio points. And COVID losses of $143 million or 4 combined ratio points. In the third quarter of 2021, we had no significant COVID-related losses.

Adjusting for the above-average catastrophe losses, our underlying combined ratio is running at a 94% combined ratio for the year-to-date and 92% for the quarter. On the underwriting front, Northbridge and Zenith reported the lowest combined ratios being 90% and 92% respectively, while Allied World also had a strong quarter at 94%. Odyssey Group and Brit had elevated combined ratios driven principally by catastrophe losses.

As mentioned, our gross premium for the quarter was up 25%, an increase of approximately $1.2 billion from the previous year. This growth has been made possible by the favorable market conditions that prevail in many of our markets, particularly in North America. Allied World grew its premiums by 24%, with growth especially strong in directors and officers and excess casualty segments. Odyssey Group's gross premiums were up 23% and continued expansion in both its insurance and reinsurance segments.

Brit's premium was up 38% in the quarter, including Ki, its innovative follow-on syndicate that started writing business in 2021. It should be noted that under accounting standards Brit must consolidate 100% of Ki's results as it has effective control of the company even though it only has a 20% economic interest. Excluding Ki, Brit's gross premium was up 18% in the quarter.

In Canada, Northbridge's top line expanded 21% in U.S. dollar terms as it continues to register impressive rate increases, strong retention and new business. Crum Forster increased its premium 22%, driven by its accident and health division and includes the rebound of its travel and student health business that was significantly affected by the COVID shutdown in 2020. Growth at Zenith was more modest as it continues to face the headwinds of the competitive workers' compensation market in the United States.

Expansion was strong in our international operations as well, with growth of approximately $150 million year-over-year. Fairfax Asia's premium was up 29% this quarter and included a full quarter from recently consolidated Singapore Re. Our companies in South America, Central and Eastern Europe and in South Africa all registered strong growth in the quarter. Across all of Fairfax we expect these trends to continue as rate increases remain robust. Our diversified portfolio, global footprint and exceptional management teams gives us the ability to generate significant organic growth.

As previously mentioned, our combined ratio of 101.1% included 13.9 points of catastrophe losses. Hurricane Ida and the European floods were the main drivers of the catastrophe losses, which resulted in losses of $340 million and $174 million respectively. Hurricane Ida, estimated to be 1 of the top 5 costliest storms in history, made landfall in Louisiana as a Category 4, and went on to produce flooding as its remnants passed through northeastern United States.

As mentioned previously, Ki is consolidated into Brit's results. For the year-to-date September 30, excluding Ki, Brit's combined ratio was 103.1%. As Ki's earned premium catches up to its underwriting expenses and its catastrophe losses, we expect Ki will benefit for its combined ratio going forward, beginning in 2022. Year-to-date, aggregate catastrophe losses and COVID losses of over $1 billion have been absorbed within our reported combined ratio of 97.3%.

In the quarter we recorded modest favorable reserve development of $70 million or 1.6 points on our combined ratio. There were no material changes in our COVID ultimate losses in the quarter. And as of the end of the third quarter we hold $431 million in net unpaid claims for COVID-19, of which 73% is IBNR.

We believe the reserve position in our main operating companies continues to strengthen as we expand with today's well-priced business with price increases exceeding loss cost. The companies are currently in the process of their annual actuarial reserve reviews, which will be reflected in our fourth quarter results.

As has been the case in the recent quarters, our expense ratio has continued to benefit from the sharp increase in premium volume. Our overall underwriting expense ratio is 1.5 points lower quarter-over-quarter, helped mainly by Allied World, where the expense ratio in the quarter dropped 2.9 points in 2021 versus 2020.

We expect market conditions to remain strong throughout 2021 and well into 2022. The main drivers of the hard market continue to be low interest rates, social inflation and industry participants reevaluating their risk appetite and capacity deployment. Our decentralized operating system continues to serve us well, allowing our companies to respond quickly to opportunities in their markets.

I will now pass the call to Jen Allen, our Chief Financial Officer, to comment on our investment results, our noninsurance company's performance and overall financial position.

Jennifer J. S. Allen
VP & CFO

Thank you, Peter. The results of the third quarter of 2021 continued to be positive, building on our momentum we achieved in the fourth quarter of 2020 and the first half of 2021. We reported net earnings attributable to shareholders of Fairfax of $462 million and just under $2.5 billion in the third quarter and first 9 months of 2021 respectively, with book value per basic share at September 30, 2021, of $562, which represented a year-to-date growth in book value per share of 19.7% adjusted to include our $10 common share dividend paid in the first quarter of 2021.

Peter has already provided detailed commentary on our insurance and reinsurance company, so I'll focus on highlighting the results from our noninsurance companies. Excluding the impact of Fairfax India's $18.6 million of performance fees to Fairfax recorded in the third quarter of 2021, and 0 in the third quarter of 2020, the operating income of our noninsurance companies improved by $43.7 million, which principally reflected higher share profit from Fairfax India's investment in their associate IIFL Finance; stronger results from our restaurant and retail segment, which reported an operating income of $59 million compared to $47 million in the third quarter of 2020, with the third quarter of 2020 benefiting from the government subsidies that reduced those 2020 expenses.

Revenue grew by 12.8%, reflecting easing of COVID-19 restrictions across Canada. That drove the increased foot traffic at the bricks-and-mortar locations. The growth in those revenues, combined with expense management programs that were already in place noted healthy gross margins across the key operating companies.

And lastly, a lower operating loss in our other segment, which primarily reflected the deconsolidation of Fairfax Africa and its subsidiary, CIG, in our fourth quarter of 2020, which negatively impacted the third quarter of 2020 by $45 million. And it was also -- we saw the benefit in 2021 of increased business volumes at Boat Rocker and Dexterra Group.

If you exclude the impact of Fairfax India's $118 million of performance fees to Fairfax in the first 9 months of 2021 and the reversal of a performance fee of $47 million in the first 9 months of 2020, the operating income of the noninsurance companies have improved by about $175 million, with $141 million attributable to our restaurant and retail segment, an improvement of about $29 million at Fairfax India.

As noted in the first 9 months of 2021, Fairfax India recorded a performance fee accrual of $118 million, with pretax earnings attributed to Fairfax shareholders benefiting by about $83 million as Fairfax India's noncontrolling interest will be allocated 70% of India's expense. At September 30, 2021, our pretax excess of our fair value over the adjusted value of our noninsurance associates and certain consolidated noninsurance subsidiary that the company considers to be portfolio investments was $483 million, which compared to a deficiency, or our adjusted carrying value was higher than the fair value at December 31, 2020, of $663 million. That improvement in the first 9 months of 2021 of over $1.1 billion has not been reflected in our book value per share, but is regularly reviewed by management as an indicator of the investment performance.

The noninsurance associates accounted for $912 million of that appreciation, principally attributed to Atlas Corp of $422 million; Quess, $243 million; Eurobank of $184 million; and the improvements in certain consolidated noninsurance subsidiaries of $234 million, which were primarily Fairfax India of $128 million and Thomas Cook at $78 million. I'll refer you to Page 79 and our third quarter interim report for further details on the underlying positions that drove that $1.1 billion improvement.

As we mentioned before, we're focused on organic growth, supported by smaller friendly acquisitions with a commitment to growing long-term shareholder value. Focusing on growing long-term shareholder value with -- and with our concerns on inflation, we continue to hold a significant portion of our investment portfolio in cash, short-term investments and other short-dated fixed income securities that represented about $21.2 billion or 44.1% of the insurance and reinsurance company's investment portfolio.

As we said previously, this position dampens interest income in the short-term but will protect us from rising rates and inflation. Our interest and dividend income of $167 million in the third quarter of 2021 was down from the $182 million in the third quarter of 2020, and primarily reflected lower interest income earned, principally due to a general decrease in our solvent bond yields, sales of maturities of our U.S. treasury bonds throughout 2020 and net sales of our U.S. corporate bonds in 2021. That was partially offset by higher dividend income on common and preferred stocks.

We added net purchases of $1.2 billion of Indian government bonds with an average maturity of 4.0 years and first mortgage loans of $501 million in the first 9 months of 2021, which are secured by high-quality real estate in the U.S., Ireland, U.K. and have terms of less than 5 years. These investments will provide some benefit to our interest income in the remainder of 2021 and the coming years.

Looking at our consolidated share of profit of associates of $227 million in the third quarter of 2021, reflected strong results from our investments in associates, and were principally comprised of a shared profit of $82 million from Resolute; $43 million from Eurobank; and $20 million from Atlas Corp.

Looking to our net gain on investments in the third quarter of $375 million, just over $2.5 billion for our 9 months 2021. The net gains on investments in the third quarter of 2021 were comprised primarily of net gains of $397 million on our digit compulsory convertible preferred shares, which I'll provide further details shortly. And net gains of $31 million on our long equity exposures primarily reflecting net gains of $157 million on our common stock and a net gain of about $86 million on the sales of Toys "R" Us Canada. That was partially offset by net losses of $117 million on our other equity derivatives that were mainly our long equity total return swaps and net losses of $106 million on convertible bonds, which are primarily related to our BlackBerry convertible debentures.

A few additional comments on the $397 million in realized gain recorded on our investment in Digit. If you recall from our second quarter conference call, we hold a 49% equity interest in an associate Go Digit Infoworks Services or we refer to it as Digit, who entered into agreements with third-party investors where its underlying insurance subsidiary Digit Insurance is going to raise $200 million in new equity shares that value Digit Insurance at $3.5 billion. In addition to that 49% equity interest in Digit, Fairfax also holds Digit compulsory convertible preferred shares, which are accounted for at a fair value through profit and loss.

At September 30, 2021, Fairfax estimated the fair value of its investment in those Digit compulsory convertible preferred shares by updating the probability weighted valuation model that we described last quarter. We've now attributed a higher weighting of 65% to the risk-adjusted transaction fair value and ascribed 35% weighting to the fair value that was determined through an internal discounted cash flow analysis. With the change in that probability weighting reflecting positive developments occurring in the third quarter of 2021 relating to the closing of the underlying $200 million capital raise. The implied fair value of our investment in the Digit compulsory convertible shares was approximately $1.3 billion, which resulted in net unrealized gain of $397 million in the quarter and $822 million in the first 9 months of 2021.

Upon closing of the Digit Insurance $200 million equity raise that's now anticipated to be completed in the fourth quarter, and the company consolidating Digit upon attaining specific regulatory approvals to increase our equity interest above 49% to a controlling interest, we anticipate to record an additional gain of approximately $1.1 billion that will increase our book value per share by about $37.

Looking at a couple of key transactions just to highlight that completed in the quarter. With our insurance companies, we mentioned earlier, last quarter, on July 14, we increased our interest in Eurolife to 80% from 50%, by acquiring joint venture interest of OMERS for cash consideration of approximately $143 million and started consolidating the assets, liabilities and results of Eurolife. We remeasured our 50% joint venture interest in Eurolife to its fair value of $450 million and recorded a net gain of $131 million.

On August 23 we completed the sale of our 60% joint venture interest in RiverStone Barbados to CVC, and received consideration of $696 million. And then on August 27, Brit issued its shares representing about a 13.9% equity interest in -- to OMERS for cash consideration of $375 million that was subsequently paid by Brit as a dividend to Fairfax.

And lastly, looking at our noninsurance companies, we continue to look for opportunities to monetize our investments, and we completed the sales of Toys "R" Us Canada. On August 19, 2021, we sold the operations. We still maintained underlying real estate at Toys "R" Us Canada for consideration of $90 million. And we deconsolidated the Toys "R" Us Canada from the noninsurance companies' reporting segment and recorded a realized gain of $86 million.

The liquidity position of the company remains strong with our cash and investments at the holding company of over $1.5 billion at September 30, 2021. And our credit facility borrowings have been fully repaid. The holding company cash, as we have mentioned before, supports the decentralized structure and enables us to deploy capital to our insurance companies efficiently.

We continue to be prudent in terms of our capital deployment strategy. And our total debt to total cap ratio, excluding the consolidated noninsurance companies, decreased by 4% to 25.7% at September 30, 2021, from 29.7% at December 31, 2020, which reflected significant increase in our shareholders' equity attributed to our net earnings of just under $2.5 billion and a reduction in the debt, both at the holding company and our insurance and reinsurance operations.

During the third quarter we repaid $500 million on the credit facility, leaving no amount drawn at September 30. And in addition, subsequent to the quarter, on October 29, 2021, we redeemed $85 million principal of our unsecured notes that were due in February 2024 at par.

In summary, after the first 9 months of the year, the company is very well positioned to continue to benefit from the strong insurance market, remaining focused on organic growth, underwriting profitability and prudent reserving. And with the easing of the COVID-19 restrictions, our noninsurance associates and certain consolidated noninsurance subsidiaries that we consider to be portfolio investments are now benefiting the company's consolidated results, helping to drive the growth in our book value per basic share.

Thank you. And I'll now turn it back over to Prem.

V. Prem Watsa
Founder, Chairman & CEO

Thank you very much, Jen. We look forward to answering your questions. [Operator Instructions] Okay. Cedric, we're ready for the questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from [Junior Roth], who is a private investor.

Unknown Attendee

Congratulation on the wonderful earnings. Question for you. Fairfax India and then Fairfax Financial, now the gap is over like 40%, 50% between book value and the actual share price. What do you guys plan? Or how do you guys think we could get it narrow or closer to the actual book value for Fairfax India and Fairfax Financial?

V. Prem Watsa
Founder, Chairman & CEO

First of all, we're focused on performance, right, long-term performance. And stock price, we can't control. We can buy back our stock. When we buy back our stock, we think it's very attractive. We've said that before. We look at financial soundness first. We've got to be financially sound, which we are. We've got $1.5 billion, as Jen said, in cash and marketable securities, $2 billion of credit line undrawn, 5 years. So we are very, very strong. And no maturities for a few years, 3 years. So financially sound. We have our insurance businesses that are expanding significantly all over the world, as Peter said. And so the second point is to always have capital for to take advantage of the market players because you're getting paid to take risk today. And finally, if all of those are met, then we look at buying back our shares. So that's how we look at it, but we're focused on performance.

Operator

Our next question comes from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

A couple of questions. First on -- maybe it's a question for Peter. The catastrophe losses in the quarter were probably a bit higher than I would have thought based on your historical performance. And I appreciate the events this quarter were very large. Brit in particular was one that kind of stood out to me as having a much higher percentage of its equity exposed to cat losses. Could you just talk through how you kind of manage the overall catastrophe exposure, the risk aggregation from an overall company standpoint and kind of how you felt the numbers came out relative to your expectations?

V. Prem Watsa
Founder, Chairman & CEO

Yes, I'll ask Peter to add to that. But overall, we look at cat exposures are very, very important. They can destroy companies, Mark, as you know. So we're very focused on cat losses. And we take extreme events. We take like $100 billion, $150 billion in Miami, which would be like a hurricane 5, Category 5 getting into Miami. And -- or Houston, or a large earthquake. So we're looking at that at all times. And we -- I've said this previously, but we don't want to lose more than our investment income. So we don't want our capital, shareholders' equity to drop because of cat exposure. So given that, Peter just your view on cat exposures, the fact that are previously going up and specifically on Brit.

Peter S. Clarke
VP & COO

Sure. Mark, yes, cat exposure is something we look at quite closely at the Fairfax level. So it's managed at the company level. And then we aggregate it as well at the Fairfax level and monitor that on a quarter-to-quarter basis. Generally speaking, our premium, which has been growing like 25%, our cat exposure hasn't been going up, has basically been flat. So on a proportional basis, our cat exposure, when we look at our overall book of business, is decreasing. As a risk exposure to overall Fairfax, it's coming down.

Specifically in the quarter, it was a heavy cat quarter. And Hurricane Ida was a big event. And when we -- when -- typically when we get bigger events, our reinsurance books get hit. And that's what happened in the case of Odyssey, when there's big hurricane losses they're going to get a higher proportion of the losses. If you go back to and look at Odyssey, for the better part of 10 years this is only the second quarter that they've had a combined ratio above 100%. And the other quarter was the third quarter, again, in 2017, where there was heavy hurricane activity with Harvey and Irma and I think the other one was Maria. So outstanding results. But when these events take place, Odyssey is going to have losses. And half of their book is reinsurance. So not an unexpected result.

At Brit, Brit again, 20% of their book is reinsurance business. So again, the same applies to Odyssey. But they also have a property binders book and an open market property book. So they get catastrophe losses on the insurance side as well. And in this quarter, Ida, which added about 33 points to their combined ratio, Ida was the region in, it hit in Louisiana, and on its open market property book they have a lot more exposure in that region. So that affected the results somewhat as well.

And lastly, at Brit, they didn't get any benefit from their cat reinsurance program. So basically, as of now, their aggregate cat losses for the year are just coming up to the retention of the cover. So the good news is any further development or losses in the fourth quarter will be minimal for Brit.

V. Prem Watsa
Founder, Chairman & CEO

Yes. So just to answer that, Mark, the -- Peter has mentioned for the 9 months we had cat losses of approximately $1 billion. In the past, if we had $1 billion, our combined ratio would have been above 100%. We've got a combined ratio of 97% for the 9 months. And remember, when you look at Brit, we're consolidating Ki, and that's just on the -- as Peter has said, it's just on the expansion mode. And if you take out Ki and take only our 20% interest, as we've disclosed in the notes of the financial statements in our press release, we are like at 103% for 9 months. And they're very well reserved.

And as Peter was saying, we do our reserves in the fourth quarter, and we expect with some good fortune that the reserve redundancies will get that combined ratio below 100%. But they're very well reserved. We don't look at reserves every quarter. We do it once a year, as Peter was saying, in the fourth quarter. So yes, so that's how we look at cat. But your point well-taken, cat is a big risk in the insurance reinsurance business, and we are very careful about it.

Mark Alan Dwelle
RBC Capital Markets, Research Division

I appreciate the color on that. That's very helpful. If I could ask 1 other question. Jen went through a number of points related to Digit, and I appreciate the color there. But I -- the one thing I guess I just wanted to talk to again briefly is what are the remaining steps? What needs to happen in order to see the recognition of that remaining $37, estimated $37? And then you suggested fourth quarter as the timeframe, which is great because we're trying to get some feedback in terms of what needs to happen and when it might happen.

V. Prem Watsa
Founder, Chairman & CEO

Yes. That's a good question, Mark. Basically, very simply, they did a $200 million issue, as Jen and Peter have said, that $3.5 billion. That $200 million stock issue from outside investors has to be approved by the IRDA, which is the Indian regulatory body. So that's #1, that should happen anytime. It's a simple approval process and should happen anytime. We don't see any problem about that. The second step is that the Indian government has passed this into law that the limit for foreign companies was 49%, it goes to 74%. That's been passed in the parliament. Now the administrative stuff has to be done by the IRDA, the regulatory body, and it's waiting for that. And I think those are the only 2 things. Peter and Jen…

Jennifer J. S. Allen
VP & CFO

No, I think that's right. There is one other competition filing in relation to our step-up to the 74%. So there might be a little bit of timing on that second leg of the consolidation, but do anticipate the larger piece of the Digit CCPSs to come through in the fourth quarter, as Prem indicated.

V. Prem Watsa
Founder, Chairman & CEO

So we don't, Mark, see any risk in it. But you know timing in India, the approvals and all of that. So if it doesn't come in the fourth quarter, it will be in the first quarter. We're expecting it to come. There's no -- it's not a big deal. The parliament has already passed the 74%. The $200 million will get approved. But I just caution here that these approvals take time in a country like India. And so they're trying to do it as quickly as possible. But all sorts of approvals take time.

But in our mind, the reason we disclosed that is because we think there's very little risk in terms of it taking place. So it's going to happen, and we didn't want it not to be disclosed. So we disclosed it and everyone knows it. We don't think there's any risk in it. It will only be accounting, whether we account for it in the fourth quarter or the first quarter. So we expect it to be, as we said, for the fourth quarter, but you know how these things are. Any other question, Mark?

Mark Alan Dwelle
RBC Capital Markets, Research Division

No, that's it. I appreciate the insight. As we all know, governments are going to move at the pace they're going to move. There's not much we can do.

V. Prem Watsa
Founder, Chairman & CEO

And that's all over the world, I may add.

Operator

[Operator Instructions] Our next question comes from [Craig Kempen with Leucadia Investment].

Unknown Analyst

I'd like to applaud all the insurance subsidiaries that came in under 100%. So that's great. I'd like to see those combined ratios stay low. Out here in California, I noticed Zenith consistently comes in under 100%. So I'd like to give kudos to Kari Van Gundy, doing a great job out here. And also Prem, personally we'd like to applaud your buyback last year of $150 million. So you're showing confidence. So I guess that gives us a little confidence too.

As far as that Fairfax actually doing the corporate buybacks, probably a good thing. I mean stock price is so low, might as well do it. Normally, I don't like to see that. It just rewards insiders and short-term traders. So my question is how can we reward the long-term investors? I know Wall Street doesn't have us on the radar. Fairfax is not on their computer algorithms. But it seems like we have enough free cash flow to raise the payout ratio for the dividend. So I'd like to see like a $20, just double the dividend, raise it to $20 this year. What's the chances of that, Prem?

V. Prem Watsa
Founder, Chairman & CEO

And Kari Van Gundy has done a fantastic job. We think Zenith is perhaps the best workers' compensation business in the United States. They're underwriting, the services they provide their customers is second to none. I've experienced it when I go there and visit them. And I must tell you, it's a special, special company. And the results, I mean I think, Peter, it's like 15, their last ratio is about 15 points below the industry.

The loss ratio for Zenith is about 15 points below the industry and they're reserving as they're so conservative year-in, year-round. So your point is well-taken. Craig, on buybacks and dividends and stuff, we look at it all the time. And by the way, on dividends, I've never taken more than a $600,000 salary. I have no bonus. And I don't get any shares. And compared to all the people in our company, I'm the -- among the lowest paid among the officers. I'm not asking for a raise, but I -- but it makes it easier for the Board of Directors because when I'm recommending something, it doesn't come back to me.

So it's not like I'm saying, Peter, I have to make more money, and then I have to make more money than Peter. Peter already makes more money than me. But I'm the largest shareholder, and I'd like to run Fairfax for 35 years as a shareholder. And so I -- we pay out a dividend of $10, every shareholder gets it, and I get $10 also, I have a few more shares, but that's how it works. Everyone gets the same amount. I like -- as a controlling shareholder, I think that's the right way to do it. Now in terms of -- we look at all the possibilities.

If a shareholder came to us and said, one of our large shareholders and said, why don't you increase the dividend on a regular basis. We think buying back our stock is a good idea. We bought as much as we can. I think it's cheap. But I'll tell you, over 35 years, Craig, our stock has been very expensive sometimes. And sometimes, like right now, it's very cheap, and it's incredibly cheap. I've said that. But this is a market where cryptocurrencies are like ridiculously priced and you have a high-tech, everyone's looking at high-tech and they're growing like a weed, making no money.

And then you see what happens, Peloton dismissed some estimates and the stock is down 30%. There's no underlying fundamental value. In the dot-com time period these stocks dropped like 75%, 80%. Someday we think that will happen. Our stock provides unbelievable value for our shareholders. And we think it's only a question of time. I've been in the market for a long time, and the market will shift, I'd say. In 2000, 2001, 2002, most markets, cumulative, dropped by about 45% to 50%, Craig, in United States, Canada and in Europe. And our stock portfolios went up 100%. In fact, in the following year they went up another 50%, 60%.

And so value investing, the names that we have. Atlas is a containership company. And David, they're run by David Sokol, and they showed their earnings. Their earnings are going to double in the next 3 or 4 years. It's all in the market. [Base stock] has hardly moved. Everyone wants to buy the cryptocurrencies of this world. And so that's just how the stock market behaves. And -- but it will change. And when it changes, we'll be the beneficiary. That's how we look at it, Craig. So thank you for your question. Thanks for the support.

Unknown Analyst

I think maybe we should give you a raise…

V. Prem Watsa
Founder, Chairman & CEO

Yes.

Unknown Analyst

Yes. Hopefully we can raise the dividend because I totally follow your philosophy, and I personally own the ATCO and they do pay out a good dividend. So maybe we can pass that along to the Fairfax people too.

V. Prem Watsa
Founder, Chairman & CEO

And you're from Leucadia, and we've always admired Leucadia.

Operator

I'm showing no further questions at this time.

V. Prem Watsa
Founder, Chairman & CEO

Okay. No more questions. So Cedric, thank you very much for hosting the call. And we look forward to all of you joining us on our next call. Thank you.

Operator
Thank you. And that concludes today's conference. You may all disconnect at this time.