S&P Capital IQ

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Fairfax Financial Holdings Limited TSX:FFH

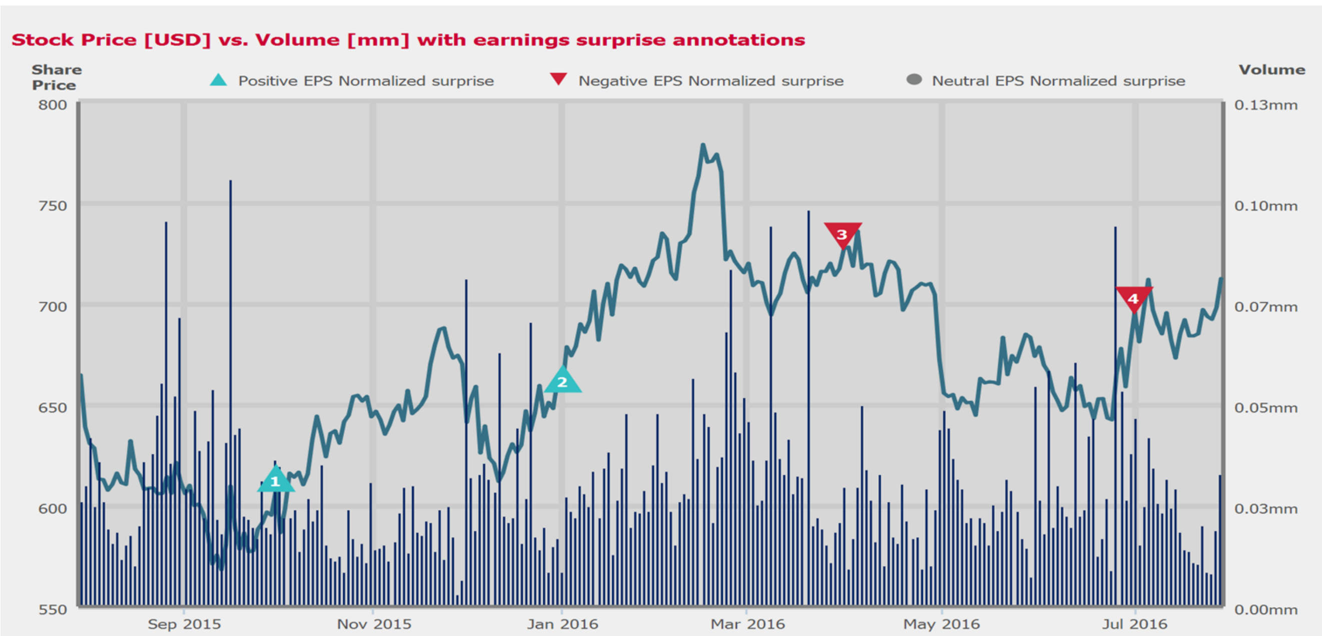
FQ3 2016 Earnings Call Transcripts

Friday, November 04, 2016 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.06	8.66	▲112.78	5.32	18.22	22.37
Revenue (mm)	2431.95	2431.40	▼(0.02 %)	2759.25	10320.60	11020.93

Currency: USD
Consensus as of Nov-04-2016 11:14 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	11.14	18.16	▲1 63.02 %
FQ4 2015	5.60	13.65	▲2 143.75 %
FQ1 2016	13.57	4.82	▼3 (64.48 %)
FQ2 2016	4.09	3.11	▼4 (23.96 %)

Call Participants

EXECUTIVES

David J. Bonham
Chief Financial Officer and Vice President

Unknown Executive

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

ANALYSTS

Howard Flinker

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Paul David Holden
CIBC World Markets Inc., Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning, and welcome to Fairfax's 2016 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 Klavin Sava[ph] . Mr. Sava, please begin.

Unknown Executive

Good morning, and welcome to our call to discuss Fairfax's 2016 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.

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

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Okay, thank you very much, Klavin[ph] , and good morning, ladies and gentlemen. Welcome to Fairfax's third quarter conference call. I'd like to give you some of the highlights, and then as always, pass it on to Dave Bonham, our CFO, for additional financial details.

In the first 9 months of 2016, book value per share increased 3.3% adjusted for the $10 per share common dividend paid in the first quarter of 2016. Our insurance companies had an excellent 9 months, with a combined ratio of 93.4%, with excellent reserving and significant underwriting profits of $379 million. In the third quarter, all our operating segments had combined ratios below 100%, with an overall combined ratio of 91.3%. Zenith had an excellent combined ratio of 75.6%; Fairfax Asia, 82.9%; OdysseyRe, 89.5%; and Northbridge, 89.8%, all below a 90% combined ratio.

As shown on Page 35 of our quarterly report, we have realized gains on our investment portfolio of $248 million before equity hedges. Excluding all hedging losses and before mark-to-market fluctuations in our investment portfolio, we earned $450 million in pretax income in the third quarter. Including all hedging losses and mark-to-market fluctuations in our investment portfolio, we have reported after-tax earnings of $33 million in the third quarter or $1.3 million, excluding noncontrolling interests. Our insurance and reinsurance business premium volume was up in the third quarter by approximately 4.4%, while the combined ratio for our insurance and reinsurance operations was 91.3%.

At the subsidiary level, the change in net premiums written in the third quarter and the combined ratios were as follows: OdysseyRe, 2% drop in the third quarter in terms of premiums; net premiums, 89.5% combined ratio; Crum & Forster, up 13%, 98.5% combined ratio; Northbridge in Canadian dollars, premiums up 12%, 89.8% combined ratios; Zenith, 7%, increase in premium, 75.6% combined ratio; Fairfax Asia, 21% increase in premium, and that excludes the LPT large portfolio transfer for last year. It's higher if you include it, but if you exclude it, it's up 21% with an 82.9% combined ratio; and for Brit, the premiums were down approximately 2% with a 96.7% combined ratio. So you can see, our insurance companies have done very well for the 3 months and for the 9 months.

As we have said below -- as we have said many times before, very low interest rates and reduced reserve redundancies means for our industry there's no place to hide. Combined ratios have to drop well below 100% for the industry to make a single-digit return on equity with these low interest rates. While the short term is always tough to predict, I remind you that fundamentals will eventually play out.

Net investment losses of $200 million in the third quarter for us consisted of the following: please refer to Page 2 of our press release, net losses on equity and equity-related investments were $247 million, resulting from net gains of $285 million on our equity investments and a $532 million net loss on our equity hedge, mainly because of a 9% increase in the Russell 2000 index in the third quarter. So the Russell increased very significantly in the third quarter. We realized gains of $38 million on our equities, primarily related to the redemption of the BlackBerry convertible in the quarter and realized $57 million of gains on individual equity hedges. As we have mentioned in our annual meetings, annual reports, quarterly calls, and I emphasize on these calls always with IFRS accounting, where stocks and bonds are recorded at market and subject to market -- mark-to-market gains or losses, quarterly and annual income will fluctuate wildly and investment results will only make sense over the long term.

Our CPI-linked derivatives with a notional value of approximately $114 billion produced unrealized losses of $77 million in the third quarter. The majority of these contracts are based on the U.S. CPI index, about 32% or the European Union CPI index, about 41%. Further information is available on Page 3 of our press release where we have included a table on our deflation swaps. On average, they have approximately 5.9 or 6 years to run. These contracts are very volatile, but as I've said many times to you before, our CDS experience comes to mind. When you review our statements, please remember that when we own more than 20% of a company, we equity account, and when we own about 40% -- about 30%, we consolidate so that mark-to-market gains in these companies are not reflected in our results. As you can see on Page 12 of our quarterly report, the fair values of our investments is $3.1 billion versus a carrying value of $2.6 billion, an unrealized gain of $0.5 billion not on our balance sheet.

Investment gains have been an important component of our returns over time. Since we began, we've had $11.3 billion in realized and unrealized gains. As previously announced last December, Fairfax agreed to acquire a 40% interest in Eurolife, the third-largest insurer in Greece. This transaction closed in the third quarter. On June 27, 2016, we agreed to acquire an 80% interest in AMAG, an Indonesian insurer. AMAG has an excellent long-term track record in the Indonesian general insurance sector, a well-diversified sales channel with the Panin Bank, and this is, we think, a great opportunity for us to continue to expand our operations in this region. This transaction closed in early October.

As previously announced on July 6, 2016, the company agreed to acquire 100% interest in Zurich insurance South Africa, a South Africa and Botswana insurer. Africa is a continent that represents a long-term growth opportunity for Fairfax but where we have traditionally done little primary commercial insurance business. The transaction is subject to closing conditions, including various regulatory approvals, and is expected to close by the end of the fourth quarter of 2016.

In October of this year, we agreed to acquire AIG's insurance operations in Argentina, Chile, Colombia, Uruguay, Venezuela and Turkey. And certain assets and renewable rights with respect to the portfolio of local business written by AIG Europe in Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia. Through an ongoing partnership, Fairfax will support and service AIG's multinational businesses in the countries in which we have acquired their business. Total consideration is approximately $240 million. Each transaction is subject to customary closing conditions, including regulatory approvals, and each transaction is expected to close next year.

We are honored to be AIG's preferred network partner all over the world to provide outstanding service to their multinational clients. The Latin American companies are well-established in their respective markets, with experienced management teams and a disciplined approach to underwriting. And they will significantly expand Fairfax's footprint in Latin America. The acquisition of the Eastern European operations follows on our recent expansion in Eastern Europe through our previously announced QBE transaction and will accelerate our plans for long-term growth in the region. We welcome all of the AIG employees in the 13 countries to the Fairfax family.

Fairfax India has now almost fully invested its $1.1 billion that it raised about a year ago in 6 investments. We like all of them, and are excited about the potential in India under Prime Minister Modi's leadership. We continue to be very concerned about the prospects for the financial markets and the economies of North America and Western Europe, accentuated, as we have said many times before, by potential weakness in China and emerging markets. As we have said now for some time, we believe there continues to be a big disconnect between the financial markets and the underlying economic fundamentals.

You never know when these markets will reverse, but be cautioned, caveat emptor, or buyer beware. As of September 30th, 2016, we had $5.5 billion in cash and short-term investments in our portfolios, which is

19.3% of our total investment portfolios to take advantage of opportunities that may come our way. Given the uncertainties of the U.S. election and the fact that we live in a mark-to-market world, in the fourth quarter, we have sold approximately 90% of our U.S. long-term treasuries in our investment portfolio, and as a result, we will have cash and short-term investments in excess of $10 billion or 35% of the portfolio. Since we began buying treasuries in 2010, we have realized a cumulative gain, now this is a cumulative gain of over $1 billion.

As we have done in the past, it is important to remind our shareholders of the significant value we have created in our investments in numerous companies that are not valued at market value in our financial statements. We've received offers to purchase some of these holdings from time to time. And for the right price, these holdings may be sold opportunistically in order to maximize value for our shareholders. Such holdings include insurance associates where we have no reasonable potential for majority control or significant influence. All of our insurance associates at the end of last year are listed on Page 57 in our 2015 annual report.

Now I would like to turn it over to Dave Bonham, our CFO, so he can give you some more information on the underlying finance fundamentals. Dave?

David J. Bonham
Chief Financial Officer and Vice President

Thank you, Prem. So on the third quarter of 2016, Fairfax has reported net earnings of $1 million and that resulted in a net loss of $0.42 per diluted share, and that's after considering payment of our preferred share dividends. So that compares to the third quarter of 2015 when we reported net earnings of $425 million or a net earnings of $18.16 per diluted share. Year-to-date in 2016, Fairfax has produced net earnings of $189 million or $6.62 per diluted share, and that was lower than in 2015 when we reported net earnings of $464 million or about $19 per diluted share.

Underwriting profit at our insurance and reinsurance operations in the third quarter and first 9 months of 2016 was $175 million and $379 million with combined ratios of 91% and 93%. That was somewhat lower than the underwriting profits of $177 million and $440 million and combined ratios of 91% in each of those respective periods in 2015. Quarter-to-date underwriting profit decreased by $3 million due to lower net favorable prior-year reserve development and a higher current period catastrophe losses, partially offset by an improvement in the current accident year loss experience excluding cats. Year-to-date underwriting profit decreased by $62 million due to higher current period catastrophe losses, partially offset by increased and net favorable prior-year reserve development.

Current period catastrophe losses in the third quarter of 2016 totaled $59 million or 3 combined ratio points and total $248 million or 4 combined ratio points in the first 9 months of 2016. Cat losses in the third quarter were mostly attritional while the Fort McMurray wildfires accounted for $66 million of the year-to-date total cat losses. Our combined ratios benefited from net favorable prior-year reserve development in the third quarter and first 9 months of 2016 of $137 million and $397 million, and that translated into about 7 combined ratio points in each of those respective periods. That compared to net favorable reserve development of $151 million and $303 million in the third quarter and first 9 months of 2015.

Net premiums written by our insurance and reinsurance operations increased by 4% in the third quarter and by 14% in the first 9 months of 2016, reflecting growth at Crum & Forster, Northbridge and Zenith National. The increase in the first 9 months of 2015 also reflected the incremental impact of the consolidation of Brit's net premiums written of about $600 million.

So turning to our operating company results, starting with Northbridge. Northbridge's underwriting profit was $24 million in the third quarter and $27 million for the first 9 months of 2016. That produced a combined ratio of 90% and 96% in each of those respective periods. The underwriting results in the third quarter and first 9 months of 2016 included $5 million and $26 million of current period catastrophe losses, and as we said, the first 9-month catastrophe losses were principally comprised of the impact of Fort McMurray, and that was with a net incurred loss of $23 million at Northbridge or about 3 combined ratio points. Northbridge's underwriting results in the third quarter and first 9 months included the benefit of net favorable prior-year reserve development of $42 million and $79 million representing about 17 and 12 combined ratio points on their combined ratio. This compared to net favorable development of $40 million and $59 million, representing about 18 and 9 combined ratio points in the same periods last year. In Canadian dollar terms, net premiums written by Northbridge in the third quarter and first 9 months of 2016 increased by 12% and 10%. That reflected increased new business writings and modest price increases across the group, partially offset by the impact of reduced reinsurance costs.

Looking at OdysseyRe. Odyssey reported underwriting profits of $59 million and $133 million at combined ratios of 90% and 91% in the third quarter and first 9 months of 2016 compared to underwriting profits of $62 million and $191 million last year. Cat losses in the third quarter and first 9 months totaled $33 million and $135 million, translating into about 6 and 9 combined ratio points in each of those respective periods. That was an increase from cat losses of $29 million and $85 million that we experienced in the third quarter and first 9 months of 2015. Odyssey's combined ratios in the third quarter and first 9 months of 2016 included the benefit of $45 million and $148 million of net favorable prior-year reserve development, and that principally related to catastrophe and other property loss reserves. That compared to the benefit of $66 million and $106 million of net favorable development last year in the third quarter and first 9 months. Odyssey wrote $499 million and just over $1.6 billion of net premiums in the third quarter and first 9 months of 2016. And excluding the impact of the nonrenewal of the Florida property quota share reinsurance contract on June 1, 2015 that we mentioned on prior conference calls, net premiums written decreased by 1.9% in the third quarter and by about 1.8% in the first 9 months. That principally reflects the impact of additional purchases of property, catastrophe, access of loss reinsurance at very favorable pricing and that will significantly mitigate the impact of small- to medium-sized catastrophe events on Odyssey's U.S. and its international operations.

Moving on to Crum & Forster. Crum & Forster produced underwriting profits of $7 million and $23 million in the third quarter and first 9 months at combined ratios of 99% and 98% respectively. Now there was no net at prior-year reserve development in either 2016 or 2015 at Crum & Forster. Current period catastrophe losses were $1 million and $17 million in the third quarter and first 9 months of 2016 compared to $5 million and $12 million in the comparable periods last year. Crum & Forster's net premiums written increased by 13% in the third quarter and first 9 months of 2016, primarily reflecting growth in its accident and health lines of business, combined with the incremental impact of the 2015 acquisitions of Redwoods, Travel Insured International, Inc. and Brownyard.

Zenith National reported underwriting profits in the third quarter and first 9 months of $52 million and $115 million and combined ratios of 76% and 81%. That compared to underwriting profits of $36 million and $97 million and combined ratios of 82% and 83% in those respective periods in 2015. Those combined ratios in 2016 included 15 and 13 combined ratio points of net favorable prior-year reserve development in the third quarter and first 9 months. Net premiums written by Zenith increased to $180 million and $700 million -- rather $671 million in the third quarter and first 9 months of 2016 from $168 million and $642 million in those respective periods last year. This increase of 7% and 5% in the third quarter and first 9 months principally reflects an increase in exposure, partially offset by modest price decreases.

And now looking at Brit. In the third quarter and first 9 months of 2016, Brit contributed $405 million and just over $1.1 billion to the consolidated net premiums written and produced underwriting profits of $12 million and $26 million, representing combined ratios of 97% and 98% respectively. As a reminder, Brit was acquired in June of 2015, so comparative figures for 2015 are only for the period in which Brit was owned by Fairfax. The underwriting results in the third quarter and first 9 months of 2016 included current period catastrophe losses of $13 million and $48 million, translating into 4 and 5 combined ratio points. Cat losses in the first 9 months of 2016 were again principally comprised of the impact of the Fort McMurray wildfires where Brit incurred net losses of $22 million, and that increased its combined ratio by about 2 points.

Fairfax Asia's underwriting profit of $12 million and $37 million and combined ratios of 83% and 81% in each of the third quarter and first 9 months of 2016 improved when compared to underwriting profits of $5 million and $20 million and combined ratios of about 90% in those comparable periods in 2015. The combined ratios in 2016 included about $5 million and $35 million respectively of net favorable prior-year reserve development. That compared to about $7 million and $18 million of favorable development in the third quarter and first 9 months last year.

Under the insurance and reinsurance other segment, it produced underwriting profits of $9 million and $18 million, combined ratios of 92% and 95% in each of the third quarter and first 9 months of 2016. And run-off reported operating losses that decreased to $12 million in the third quarter of 2016 compared to an operating loss of $19 million in the third quarter of 2015. The year-over-year decrease principally reflects lower operating expenses in our run-off operation.

Looking at some of our consolidated figures, our consolidated interest and dividend income decreased modestly quarter-over-quarter from $106 million to $105 million but increased from $367 million in the first 9 months to $419 million in 2016, and that reflected increased holdings of higher-yielding government bonds and corporate bonds, partially offset by the sales of U.S. state and municipal bonds.

Fairfax recorded an income tax recovery of $30 million in the third quarter of 2016 on pretax earnings of $2.5 million. It's really the small base of pretax earnings that's the principle factor resulting in the unusual effective tax rate. However, the items reconciling our statutory tax rate to our effective tax rate remained fairly consistent with prior periods.

And for further details on that, I draw your attention to Note 13 of our third quarter report, where we show our detailed income tax reconciliation, and we also show a tabular breakdown of our pretax results by jurisdiction and the related tax provisions. We ended the third quarter with an investment portfolio inclusive of holding company cash of $29.5 billion compared to $29 billion at the end of 2015. And looking at our financial position, our total debt to total capital ratio increased to 24.8% at September 30th from 21.8% at December 31, 2015. That primarily resulted from the issuance of 400 principal amount of 4.5% unsecured senior notes that we issued in the first quarter of 2016. And also an increase in subsidiary debt in the third quarter, which included Fairfax India's term loan of $225 million and Cara's borrowings of about $208 million to finance its acquisition of St-Hubert. Increased long-term debt was somewhat offset by the increase in our common shareholders' equity, to the issuance of 1 million subordinate voting shares in the first quarter and higher noncontrolling interest in the third quarter.

So with that, I'll pass it back over to you, Prem.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer
Thank you very much, Dave. At the end -- now we're happy to answer your questions. [Operator Instructions] Gabby, we are ready for the questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Paul Holden of CIBC.

Paul David Holden
CIBC World Markets Inc., Research Division

So my one question for you, Prem, would be with respect to the change in holdings on the U.S. treasuries. So you said you reduced that position, reduced it significantly because of uncertainty of the U.S. election. I won't ask you to predict the outcome of the election, but I will ask you what you might do with that position pending the outcome of the election, i.e. if it goes one way or the other, might you reenter that position?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Well, Paul, thank you for that question. Yes, we've as we said, sold 90% plus of our treasury bonds and we've made the point that the uncertainties in the U.S. election is the reason. We don't know who's going to win the elections, but you could have significant Infrastructure spending, you could have a drop in corporate tax rates and while we think that might work in the short term, in the long-term, we still have questions about that. But we do live in a mark-to-market world, and we wanted to take that risk out. And so we've done that. And so with $10 billion of cash, Paul, and the investment portfolios, $1 billion in cash and marketable securities and the holding company, we've got $1 billion of undrawn lines, bank lines, our stocks are hedged, we've got no corporate bonds to speak of, we've got some deflation swaps, we like the position we are in. We've got tremendous flexibility that's built into our company, and we can take advantage of any opportunities that come with this U.S. elections or otherwise. But we like that flexibility, we really don't know what will happen, and we have to say, and as it happens, we'll react. But we have an investment team here that's been managing money in one form or the other for 40 years and we've got 3 partners for, who happen to be 1, who worked together for most of that time period. And as these -- as this comes along, we'll react. But this is a very uncertain world that we live in, there is a of lot unintended consequences, I've said that for a few years, and if any of these unintended consequences that we've talked about, U.S. elections is one, you've got Brexit, you've got China, which we keep emphasizing in our annual reports. We recognize and we've said to you there's too much debt in the United States and in the rest of the world, all of this monetary policy, QE1, QE2, QE3 all haven't worked in any significant way. So when you see all of that, we like the fact that we have $10 billion plus of cash in our investment portfolios, with the idea that we can take advantage of our opportunity as and when it comes our way.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay, I understand. So if I get the impression right, your view towards a deflationary world has not changed, which then may suggest that long dated bonds at some point in time may not be a bad place to be again.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, thank you very much, Paul. No, deflationary stance hasn't changed, but our investments and deflation swaps have a cap on it. They're limited but the possibilities, of course, are there that they can do very well. So Gabby, you next question, please?

Operator

Our next question is from Tom MacKinnon of EMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Yes, my question was asked and answered. Thanks very much.

Operator

Next question is from Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

The -- you guys recently announced a deal to acquire a mix of units and assets from AIG. I was hoping you can just kind of go into that in a little bit more detail, it obviously plants a number of flags around the globe and fills in some spots on the Fairfax map. Was also interested if you had an idea of what the ballpark number of dollars or premiums that might be involved there.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, well Mark, we were very excited, first of all, to become AIG's preferred network provider, as I mentioned to you. So what that means is AIG has many global companies that have insurance needs all over the world. So we would, of course, look after those requirements and provide outstanding service for them, same people will be servicing them that have serviced them in the past in all these countries. There's 13 countries involved. 7 of them, 6 in Latin America and Turkey, will have their independent companies. So they have their own capital in Latin America and their premiums, and many of them are very well-established -- all of them are well-established, but some of them have in Argentina, I think it's about 80 years, Colombia, it's about 40 years. So their existing operations, very disciplined underwriting, AIG has been known in the past for disciplined underwriting, and we'll manage them on a decentralized basis. In case of Latin America, each of the country heads will run it separately. They'll report in to Miami, we'll have a very small office in Miami, and that will come through Bijan who has been in AIG for the better part of 20-plus years into Andy Bernard, and in the case of Eastern Europe, we have Peter Csakvari, who's looking after our Eastern Europe operations reporting into Bijan and Andy. So this will fit directly. In the case of Eastern Europe, its branches established in these countries with all the people, with all the systems, but we will capitalize them through Colonnade, a Luxembourg company, and write the business through there. So for us, we are very excited about this opportunity, and we think, in our structure, all of these companies will be underwriting -- will make another an underwriting profit very soon, likely in 2017. And then of course, the investment income gives us diversification -- broad diversification. In terms of premiums, if you add all of it and gross premiums, it'll add up to, Mark, in the $700 million, $800 million area. That's gross premiums and then we'd be looking at retaining, we'd have to reinsure, of course, in terms of protecting us from exposures. But the gross premium is at that level, and we bought these operations at book value. And so we think over time, this will be a good return for our shareholders. And of course, we will provide outstanding service to AIG who will -- Fairfax will be their preferred network partner, and in the future if they decide to divest any more countries because it makes sense for them, it's small, we'd be the obvious choice because they have worked with us, and we have AIG people with us like Bijan and we are really happy and I said this but I want to say it again. We welcome the employees from AIG's operations to Fairfax. We're very excited. We've met many of their leaders, but we're looking forward to meeting the individual people, the individual employees. In total, they might be somewhere in the 1,500 area in terms of all of the countries.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

That is very comprehensive and certainly a relatively larger deal than might have been suggested by the actual purchase price. Second question I had, related to Hurricane Matthew, do you have any preliminary sense of what losses related to that might be, and if nothing else, maybe just a sense of which operating units might have exposure to that event.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, I'll pass that on to Dave. Dave, your sense of that?

David J. Bonham
Chief Financial Officer and Vice President

Yes, so Hurricane Matthew should not be a significant event for us. There will be a little bit of exposure at Crum & Forster and in some in Odyssey and perhaps a bit at Brit. But I don't -- I wouldn't expect anything significant in terms of Hurricane Matthew in the fourth quarter for Fairfax.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Of course, as you know, Mark, Hurricane Matthew went along the coast and could have been a much bigger event. But the industry and all of us were very fortunate, including the residents in Florida that it didn't come in earlier or sooner. And so yes, we don't think it's going to be a very significant event, Mark.

Operator

Our next question is from Howard Flinker of Flinker & Company.

Howard Flinker

Just 2 or 3 technical questions. In the inflationary hedges, BPS, basis points?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, yes, it is.

Howard Flinker

And second, if you choose and deflation emerges, can you refund or cash in those hedges before maturity or do you have to wait until maturity?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

No, they're tradable instruments, Howard, and so they have a maturity of, say, 6 years on average, but you can trade them before. Same sort of structure as credit default swaps that we acquired some years back. They had 5 years, 7 years to maturity, but you can trade, there's a market that you can trade them on. And so yes, we would, of course -- we never waited for maturity and in credit default swaps our investments there and we -- unlikely we'll wait for maturity in this case too.

Howard Flinker

And finally, the phone was breaking up as you were saying what I thought were premiums written for the AIG subsidiaries acquired. Did you say about $800 million premiums written?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, I said $700 million to $800 million, sorry, $700 million to $800 million. So it's relatively significant for us in terms of premium.

Operator

[Operator Instructions]

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Well, Gabby if there are no more questions, I thank you very much all for joining us on this call. We'll look forward to presenting to you again in the next quarter. Thank you, Gabby.

Operator

Thank you. That concludes today's conference call. Thank you all for joining. You may now disconnect.