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Fairfax Financial Holdings Limited TSX:FFH

Earnings Call

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Call Participants

EXECUTIVES

Derek Bulas
VP & Chief Legal Officer

Jennifer J. S. Allen
VP & CFO

Peter S. Clarke
President & COO

V. Prem Watsa
Founder, Chairman & CEO

ANALYSTS

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Nikolaus Priebe
CIBC Capital Markets, Research Division

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

ATTENDEES

Unknown Attendee

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Presentation

Operator

Good morning, and welcome to Fairfax's 2023 Second 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. And Mr. Bulas, you may begin.

Derek Bulas
VP & Chief Legal Officer

Good morning, and welcome to our call to discuss Fairfax's 2023 Second 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. 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 2023 second quarter conference call. I plan to give you a couple of highlights and then pass the call to Peter Clarke, our President and Chief Operating Officer, to comment on the quarter; and Jen Allen, our Chief Financial Officer, to provide some additional financial details.

As I said in our first quarter, beginning January 1, 2023, we were required to adopt IFRS 17 accounting. This has resulted in many changes to our financial statements. The most significant change being the discounting of our insurance liabilities and the provision of a specific risk margin for uncertainty. I want to stress that this new reporting requirement will not change the way we manage the business, and we will continue to be focused on underwriting profit on an undiscounted basis with strong reserving. We will continue to show our combined ratios and operating income on an undiscounted basis.

As I said last quarter, the most important point I can make for you, again, is to repeat that for the first time in our 37-year history, I can say to you, we expect, of course, with no guarantees, our operating income to be more than $3 billion annually for the next 3 years. Operating income consists of $1.5 billion plus from interest and dividend income, $1 billion from underwriting profit and $0.5 billion from associates and noninsurance companies. This works out to about $100 per share after interest expenses, overhead and taxes.

We continue to run above these levels with year-to-date operating income of $1.8 billion, excluding the effects of discounting and risk margin. Fluctuations in stock and bond prices will be on top of that, but this only really matters over the long term.

Our fixed income portfolio remains conservatively positioned with approximately 74% in government securities and only 15% in short-dated corporate bonds. Our insurance and reinsurance operations continue to perform exceptionally well, with gross premiums written in the second quarter of $8 billion, up 10%, a combined ratio of 93.9%, resulting in an underwriting profit of $337 million in the quarter.

Our stock positions in associates continues to do very well, particularly Fairfax India, Atlas Corp, and Eurobank. I want to bring to your attention the table on Page 32 in Fairfax India's MD&A, which shows Fairfax India's investment track record, public equities, private equities, from cost, from the original investment have compounded at about 12.7%. And the ones that have been monetized which means sold

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either partial or for our total have gone at 17.5%. That table is worth looking at. It's in the MD&A, first page of the MD&A on Fairfax India.

I will now pass the call to Peter Clarke, our President and Chief Operating Officer for further updates. Peter?

Peter S. Clarke
President & COO

Thank you, Prem. We had another strong quarter with net earnings of $734 million for the second quarter of 2023 and book value increased to $834 per share, an increase of 10.8% from year-end, adjusted for a $10 dividend. The strong performance in the quarter was driven by adjusted operating income of $913 million from our insurance and reinsurance operations generated through underwriting income of $337 million. Interest and dividend income of $407 million and our share of profit of associates of $169 million.

As Prem said, our combined ratio for the second quarter of 2023 was 93.9% and included catastrophe losses of $135 million or 2.4 combined ratio points, while our gross premium was up 10%. We continue to see favorable market conditions in many of our major lines of business and more on the underwriting results later.

Our investment return for the quarter was 0.8%, driven by increased interest and dividend income, strong share of profits of associates, offset by net losses on investments. Interest and dividend income of $465 million more than doubled from the second quarter of 2022, benefiting from a very low duration of our fixed income portfolio coming into 2022 and reinvesting at higher interest rates throughout 2022 and 2023.

Net losses on investments of $342 million were driven by losses on our bond portfolio of $405 million in the second quarter, consisting primarily of unrealized losses from U.S. and Canadian government bonds due to increased interest rates in the quarter. Our fixed income duration continues to be relatively short at 2.4 years.

Net gains on our equity and equity-related holdings were $164 million in the quarter. As mentioned in previous quarters, our book value per share of $834 does not include unrealized gains or losses in our equity accounted investments and our consolidated investments, which are not mark-to-market.

At the end of the second quarter, the fair value of these securities in excess of carrying value -- was in excess of carrying value by $761 million, an unrealized gain position or $33 per share on a pretax basis.

Under IFRS 17, our net earnings are affected by the discounting of our insurance liabilities and the application of a risk adjustment. In the second quarter of 2023, our net earnings benefited $221 million pretax from the effects of discounting losses occurring in the current quarter, changes in the risk margin, the unwinding of the discount from previous years and changes in the discount rate on prior year liabilities. As interest rates move up and down, we will see positive or negative effects on earnings from discounting.

Our insurance and reinsurance businesses continue to grow all over the world as we wrote $8 billion of gross premium in the second quarter of 2023. Our gross premiums were up 10% this quarter versus the second quarter of 2022, an increase of approximately $728 million. This growth is driven by continued rate and the strong margins that prevail in many of our markets, driven by increased pricing on property business, especially catastrophe exposed.

Our North American Insurance segment increased gross premiums by $254 million or 13.1%. Crum & Forster had double-digit growth at 18%, driven again by its accident and health business. Northbridge was up almost 12% in Canadian dollars due to high customer retention and rate increases, and Zenith premiums were up 6% year-over-year, driven primarily by its agribusiness. Our global insurer and reinsurer segment grew gross premium by $233 million up 5% this quarter versus the second quarter of 2022. Odyssey Group was up 7.3%, while Allied World was up 4.6% in the quarter, both driven by double-digit premium growth in the reinsurance operations.

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Brit's premium was up 2% with premium up at key almost 30%, while premiums were down at Brit's other business, largely due to reductions in its casualty and FinPro business. The premium of our international operations was up the most of all our segments on a percentage basis, increasing 36% or $241 million in the second quarter versus the second quarter of 2022.

Growth was exceptionally strong at Fairfax Asia, up 60%, driven by Singapore Re and Pacific Insurance. Both who are benefiting from firming rates on property business. [OdysseyRe] also had strong growth in the quarter, doubling its premium volume versus the second quarter of 2022, benefiting from increased reinsurance rates in Eastern Europe. We also saw double-digit growth at Fairfax Brazil, LatAm and Colonnade insurance. On closing of our acquisition of additional 46% of Gulf Insurance, which we believe will occur in the second half of 2023, we will begin consolidating the results adding approximately $2.7 billion in gross premium annually to our international business.

We are very excited about the long-term prospects of our international operations. and will be a significant source of growth over time, driven by our excellent management teams, underpenetrated insurance markets and strong local economies. Our companies continue to grow into favorable market conditions, while we see rate increases moderating or rates reducing in some lines, public D&O and cyber, for example, overall margins remain attractive.

The reinsurance market continues to harden, especially for property business, and we expect that will continue throughout 2023 or longer. As previously mentioned, our combined ratio was 93.9% in the second quarter of 2023, producing underwriting profit of $337 million. The combined ratio included catastrophe losses of $135 million, adding 2.4 combined ratio points, primarily from attritional losses and additional losses from the first quarter earthquake in Turkey. This compares to a combined ratio of 94.1% and catastrophe losses of 3.2 points in the second quarter of 2022.

As our premium base has expanded significantly and with the benefits of diversification, we expect to be able to absorb significant catastrophe losses within our underlying underwriting profit. Our global insurers and reinsurers posted a combined ratio of 93.3%, led by Allied World, who had a combined ratio of 91% with its global insurance segment producing a 90% combined while its reinsurance segment was at 93.3%. Both Odyssey Group and Brit produced combined ratios below 95% at 94.3% and 94.8%.

Our North American insurers had a combined ratio of 94.7%, led by Northbridge with a combined ratio of 93.2%. Northbridge's combined ratio was 6 points higher than last year due to increased frequency of large losses in the second quarter. We expect that would normalize over the rest of the year. Crum & Forster posted a 95% combined ratio, which included catastrophe losses of 1.7 points, approximately 1 full point higher than the previous year. While Zenith had a combined ratio of 96.6%, benefiting again from favorable reserve development.

Our international operations delivered a combined ratio for the quarter of 95.3%. Colonnade had a great quarter with a combined ratio of 90.2% benefiting from good underlying business and favorable reserve development. [Brit] in South Africa posted a strong quarter of 94% after a couple of tough years of catastrophe losses. While Latin America continued to perform well with a combined ratio of 95.3%.

Fairfax Asia had an elevated combined ratio compared to prior quarters although still produced an underwriting profit with a 98.4% combined ratio. Our international operations continue to perform very well with each of our segments contributing to the underwriting profit of the group.

For the quarter, our insurance and reinsurance companies recorded favorable reserve development of $72 million or a benefit of 1.3 points on our combined ratio. This is compared to $48 million or the benefit of 0.9 points in 2022. Prior year reserve movements tend to be less in the first half of the year, given the extensive actuarial reserve reviews performed in the third and fourth quarters.

Our expense ratio was up approximately half a combined ratio points in the second quarter of 2023 versus the second quarter of 2022, partially due to the effects of inflation on salaries and investments in people and technology, offset by increased earned premiums.

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Our insurance and reinsurance operations had a great first half of the year, producing underwriting income over $650 million while continuing to grow profitably. We are led by exceptional management teams and our companies are positioned very well to capitalize on their opportunities in their respective markets.

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

Jennifer J. S. Allen
VP & CFO

Thank you, Peter. As we disclosed in our first quarter 2023 interim report on January 1, 2023, the company adopted the new accounting standard for insurance contracts IFRS 17. Within our Q2 2023 interim report, I want to refer you to Note 3 and sections within our MD&A under the heading adoption of IFRS 17 contracts on January 1, 2023, and accounting disclosure and matters for details on the adoption and any impact on our consolidated financial statements relating to this new accounting standard.

Before I provide commentary on our second quarter results, I would like to highlight that consistent with our Q1 2023 interim report, our comparative periods in the company's Q2 '23 interim report have been restated and presented under IFRS 17. Our Q2 2023 interim report includes restated comparable reporting periods for the consolidated statement of earnings, comprehensive income and cash flows for the 3 and 6-month period ended June 30, 2022, our consolidated statement of changes in equity for the 6 months ended June 30, 2022, and we restated the consolidated balance sheet as of January 31, '22 and January 1, 2022. So all the comparative periods presented now in our Q2 '23 interim report are on the same measurement basis under IFRS 17.

In our Q2 2023 press release on Page 2 and MD&A, Page 44, we've disclosed a table that reconciles our insurance service results under IFRS 17 for our property and casualty insurance and reinsurance operations to underwriting profit. A key performance measure used by the company and the property and casualty industry in which we operate to evaluate and manage the business. The primary reconciling adjustments presented in these tables are first, we adjust to include other insurance operating expenses, which are presented in the statement of earnings outside of the insurance service results.

And secondly, we adjust for the effects of discounting on the net losses on claims and changes in the risk adjustment, which are included in that insurance service results and our consolidated statement of earnings. Our traditional performance measures of underwriting profit and combined ratios are on an undiscounted basis, as discussed by Peter.

So I'll begin my comments in the second quarter on the impact of IFRS 17 within our results. In the second quarter of '23, the net earnings of $734.4 million included a pretax net benefit of $221 million related to IFRS 17. That pretax benefit of $221 million is reported within 2 financial statement lines in our consolidated statement of earnings.

First, included within the insurance service result line, is a benefit of discounting our losses and ceded loss on claims, net of any change in risk adjustment recorded in the second quarter of '23 of $645 million. That was partially offset by the second component that's presented in a separate line called net finance expense from insurance and reinsurance contracts for $424 million that predominantly consisted of interest accretion of $347 million, which is a result of the unwinding of the effects from discounting associated with their net claim payments made during the period.

This compares to a net pretax benefit in the second quarter of 2022 of $1.1 billion, which was comprised of the same component I just previously mentioned, which mainly included within our insurance service result, the benefit of discounting losses and ceded loss on claims, net of any change in the risk adjustment of $346 million. In the prior year, it was actually a benefit or a net finance income from insurance and reinsurance contracts of $730 million, which reflected an increase in the discount rates in the period of $770 million, which was a result in the change in the interest rate environment being more pronounced in the first 6 months of 2022 compared to the respective period in '23, which was partially offset by the unwind or interest accretion relating to the effects of discounting associated with the net claim payments.

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I'll refer you to Note 4 in our Q2 2023 interim report for additional details on the discount rate applied on the losses and ceded loss on claims recorded within the period.

A few comments on our noninsurance company results in the quarter. The operating income of our noninsurance company reporting segment increased to $36.9 million in the second quarter of 2023 from $7.5 million in the second quarter of 2022. If you exclude the following 2 items, which is first, Fairfax India's performance fees to Fairfax, which was an accrual of $36 million in '23 and a reversal of a performance fee payable of $47 million in '22; and secondly, the impact of a noncash impairment charge recorded in the second quarter of '22 of $109 million related to our investment in Farmers Edge, we would have an adjusted operating income for our noninsurance companies' reporting segment, increasing to $72.5 million in the second quarter of '23 from $69.7 million in the prior period.

And that principally reflected continued favorable results from our restaurant and retail segment. We had higher business volumes at Thomas Cook India and higher share of profit of associates at Fairfax India. If we turn and look to our share of profit from our investments in associates in the second quarter of '23, we reported continued strong profits from the investments in associates in the second quarter, with profits of associates of $269.2 million compared to $265.7 million in 2022. These numbers reflected share of profits from Eurobank at $130.5 million compared to $118.7 million in 2022.

EXCO Resources contributed $46.2 million in the quarter compared to a loss in the prior period of $38.5 million, and Gulf Insurance benefited the number by $24.1 million compared to $17.7 million in the prior period. This was partially offset by reduced share profits from Poseidon or formerly known as Atlas, of $6.3 million compared to $72 million in the prior period, reflecting higher interest expense and interest rate hedging losses compared to hedging gains in the prior year, which fluctuate quarterly and transaction costs related to the first quarter privatization of the company.

And also to note, Resolute, we have no share profit from Resolute in our second quarter 2023 as a result of the disposition of the investment in March 1, 2023. [New trend] transaction in the quarter comments on that is on May 10, 2023. Brit sold Ambridge, its managing general underwriting operations to Amynta Group. The company received $379 million as part of this transaction, which was comprised of cash of $266 million and a promissory note with a fair value of $113 million. An additional $100 million may be receivable subject to a clawback based on 2023 performance targets of Ambridge.

As a result of this sale, the company recorded a pretax and after-tax gain of $259 million, which is presented in the line called gain on sale of insurance subsidiary within our consolidated statement of earnings, and we deconsolidated the assets and liability with carrying values of $309 million and $191 million, respectively. There were no other significant acquisitions or divestitures that closed during the second quarter of 2023.

As Peter noted, we expect to close sometime in the second half of 2023, our acquisition of additional interest in Gulf Insurance. On April 19, 2023, we entered into an agreement, pursuant to which we will acquire all of those shares of Gulf Insurance under control of KIPCO and certain of its affiliates that represent 46.3% of the equity of Gulf Insurance.

On closing of that transaction, we anticipate we will consolidate the assets and liabilities of Gulf Insurance and increase our equity interest from current 43.7% to a controlling interest of 90% and we will expect to record a pretax gain related to this transaction at $290 million. With changes to that number reflected in the company's carrying value of its equity accounted investments in Gulf Insurance up until the date of closing.

In closing, a few comments on our financial condition. The liquidity position of the company remains strong with our cash and investments at the holding company at $1.1 billion at June 30, 2023, that's principally held in cash and short-term dated investments and access to our fully undrawn $2 billion unsecured revolving credit facility that was renewed and extended for 1 year in the second quarter. Also in the second quarter of 2023, we paid -- Brit paid a special dividend of $275 million to the holding company as a result of that sale of Ambridge.

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At June 30, 2023, the excess of fair value over carrying value of investments in noninsurance associates and market traded consolidated noninsurance subsidiaries was $761 million compared to $310 million at December 31, 2022. Included in the June 30, '23 amount, the company's investment in Poseidon or known as Atlas the prior, where the company estimated the fair value of its interest in Poseidon at June 30, 2023, based on the cash purchase price of $15.50 per Atlas common shares pursuant to the privatization transaction that we described in Note 6 to our interim report.

That pretax excess of $761 million is not reflected in the company's book value per share but is regularly reviewed by management as an indicator of the investment performance. At June -- sorry, on June 23, 2023, the company purchased shares from our minority shareholders of Allied World, for cash consideration of $31 million, increasing the ownership in Allied World from 82.9% to 83.4%. Concurrently, certain terms of the Allied World shareholder agreement were amended to extend the company's option to purchase the remaining interest of the minority shareholders in Allied World at certain dates from September 2024 to September 2026.

The company's total debt to total cap ratio, excluding our noninsurance companies, improved to 22.5% at June 30, '23 compared to 23.7% at December 31, 2022, and reflected the strong net earnings that we reported in the first 6 months of 2023 is $2 billion. That included the underwriting profit of $651 million, interest and dividend income of $847 million and the share of profit of associates of $603 million.

The holding company has no significant holding company debt maturities until August 2024. And lastly, a comment on our common shareholder equity, which increased by $1.6 billion to $19.4 billion at June 30, 2023, from $17.8 billion at December 31, '22 and it reflected the net earnings of the $2 billion noted, which was partially offset by payments of common and preferred share dividends of $270 million and purchases of 179,000 subordinate voting shares for cancellation for cash consideration of $115 million or approximately $639 per share.

That concludes my remarks for the second quarter of '23, and I'll turn this call back over to Prem.

V. Prem Watsa
Founder, Chairman & CEO
Thank you very much, Jen. We now look forward to answering your questions. Please give us your name, your company name and try to limit your questions to only one, so that it's fair to all on the call. So Fran, we're ready for the questions.

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Question and Answer

Operator

Now our first is from Nik Priebe with CIBC Capital Markets.

Nikolaus Priebe
CIBC Capital Markets, Research Division

The pricing environment across the P&C sector appears to be firming a bit on the whole with a lot of that strength concentrated in cat-exposed property lines. As other capacity providers withdraw from the market or retrench, are you leaning into that space in a more meaningful way? Would just be interested to hear your thoughts on where you see the highest ROE opportunities on the underwriting side and how tactically you might be in pushing around the marginal dollar in the direction of those opportunities?

V. Prem Watsa
Founder, Chairman & CEO

Nik, that's a very good question. I'll pass it on to our President, Peter Clarke. And Peter, any comments?

Peter S. Clarke
President & COO

Yes. Thanks, Nik. You're exactly right. The markets continue to harden, but especially on the property side and the property cat side. To date, we've grown marginally on property cat. We're taking advantages. We're seeing rate in excess of 30%. And our net exposure has been going up as we reduced the amount of reinsurance we bought. But generally speaking, we're evaluating that as we speak. It continues to be a very good market, the property cat market. And we'll look at it again on the 1/1 renewals.

V. Prem Watsa
Founder, Chairman & CEO

So Nik, the only thing I would add is cat exposures, you don't know when it can come. So you could get a terrific hurricane or an earthquake. So we're very, very careful about our exposures. We take worst-case exposures, like limit losses because that's the one area where you could lose your company. And we've seen many companies have taken a hit in the past. The pricing is really good. We're taking advantage as Peter said, but you have to be careful about the downside.

Next question Fran?

Operator

Jaeme Gloyn with National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Another good quarter on the interest and dividend income. Interest rates continue to track higher. You got the PacWest deal in the books. I would look at the run rate being greater than $1.5 billion and maybe even approaching $2 billion soon. But in your guidance, you still kind of look at $1.5 billion in that build up to the $3 billion for the next 3 years.

I guess the question is, what will it take for you to revise that $3 billion? Am I directionally right with how I'm thinking about this? And should we expect to see that sort of trend higher here?

V. Prem Watsa
Founder, Chairman & CEO

So Jaeme, it's moving higher for all the reasons you said. But we look at it again at the end of the year, and we are not in the forecasting business. It's only that it was so significant as we mentioned in our

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annual report that for the first time, we were able to look at 3 years and say an operating income of $3 billion and which is like $100 a share, we've never been able to do that.

And what's happened in there, said it in the annual report is that 2 significant things happened: one, the size of our company, $30 billion of premium U.S. dollars, gross written premium, that's what we're running at. And that's not including, as Peter said, the $2.73 billion of GIG, gross written premium, the Middle Eastern company. So the size has improved huge. And the second is the operating income, which you just mentioned.

We've never had that before and then operating income of $100 a share, we look at it again at the year-end. And what's happened, Jaeme, is that we've always focused on the long term. And so you have periods where you don't perform as well. I know our shareholders wouldn't have been happy with us, and then suddenly things change. And so we haven't changed at all. Long-term underwriting profit, focus on good reserving and value investing always protect the downside first. And that's what you're seeing Jaeme.

Operator

Tom MacKinnon with BMO.

Tom MacKinnon
BMO Capital Markets Equity Research

And my question really more on the fact that especially from an operating perspective, I mean everything is going very smoothly here with better underwriting income, better interest and dividend income and better earnings from your associates. You're well capitalized here. Why not step up in on the buyback a little bit more here, especially given the stock still trades below book value?

V. Prem Watsa
Founder, Chairman & CEO

Yes. Tom, that's our first -- you remember, we've talked about this before. The first thing is to be financially sound always, second, and financially sound means, as Jen was saying, through $1 billion in cash and marketable securities, the $2 billion line of credit and no maturities other than the one that she talked about next year, our bond maturities.

So financially, we'd like to think we're very, very sound and strong. And then we look at buying back common shares. And Peter has -- that's -- we bought some more shares in the second quarter. But Peter, in terms of our perspective on buying back shares.

Peter S. Clarke
President & COO

Yes. And I guess the other thing to remember is and we're still growing, and we grew 10% in the quarter. So we still continue to grow profitably, which we like and we fully support and that would be our #1 priority right now with our capital. But as that growth slows down over time, we -- it will very quickly produce excess capital. And it gives us a lot of flexibility with what we can do with that. But that's the other point. We're going to manage our capital, and we have lots of options, but right now, we continue to grow, and we're happy to fund that growth through internal capital.

V. Prem Watsa
Founder, Chairman & CEO

And Tom, one other point on the buying back. In our annual report, we said that our book value per share grew at 18.8% from inception, compounded at 18.8%. Our stock price sometimes compounds above and sometimes below. Well, at the end of 2022, we said, what stock price Canadian dollars would make the book value compound and the stock price compound the same? And that number, we put in our annual report was CAD 1,375, 1-3-7-5. That just makes it sane. Book value is our first indication. Our book value, we think, is very understated and our book value -- our intrinsic value, which I'll leave you guys to estimate is worth a lot more than the book value. But that's how we look at it. So at the end of the year,

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CAD 1,375, if we can buy our shares, we think we're doing all shareholders that we're doing well by all shareholders by buying back the stock.

Operator

Scott Heleniak with RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Wondering if you could talk about just in general loss cost trend and social inflation. Those have come up big topics on a lot of the P&C insurer conference calls. Wondering if you could just expand what are you seeing across your book? Any areas that stand out where you're seeing kind of a change or uptick in loss cost trends and social inflation, if any? And just -- if you could identify anything kind of you're seeing any observations relative to the last few quarters, any change or observations?

V. Prem Watsa
Founder, Chairman & CEO

Scott, that's a good question and it's a concern in the property casualty business, especially in the United States. Peter?

Peter S. Clarke
President & COO

Yes. So as I said before, we're still getting fairly good rate, and we believe in aggregate, rate above loss cost, probably in the 6% -- 6.5% range rate. But you're exactly right, on the casualty side, is where we watch it very, very closely. And I think in the last number of years, we've been able to get rate in excess of inflation, social inflation in particular. But we still, in those accident years 2014 to 2018, we do see some continuing development on the casualty lines.

Now that's more -- it's been offset by redundancies we have in other lines, but you continue to see it in those accident years. We haven't touched any of our reserves on the more recent casualty years and we really haven't taken a lot of the rate that we got in those years to the bottom line. So we continue to monitor it closely and watch it throughout the group.

V. Prem Watsa
Founder, Chairman & CEO

That's an important point, Peter, you just made with our reserve, we look at it basically once a year, and we've expanded in the hard market significantly, and we've expanded in the past in 2001, 2002. And we saw what happened in terms of reserve redundancies.

We are focused on the long term and so we think reserve redundancies are very much ahead of us. But social inflation is one uncertainty. The others, of course, is inflation, interest rates, recession so you got all of these uncertainties, which, in a sense, help the property casualty cycle. But one of these days, it will end, there will be people wanting to come in and write business at much lower rates. And as Peter was saying, that's the time when our business would perhaps be flat and maybe even come down.

Operator

Our next question from [Junior Ra] a private investor.

Unknown Attendee

Congratulations on the terrific -- congratulations on the good quarter and a good website, too, you guys did a good update there. A question about Bangalore Airport. Is there an impact to the IPO with the future purchase of the 7%? Or are we still on target to IPO that within the next couple of years?

V. Prem Watsa
Founder, Chairman & CEO

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Yes. We've mentioned that we're in the course of looking at an IPO through anchorage, but we bought 3% and we really like the Bangalore International Airport, and we like the valuation. And we think long term, it's extremely attractive for us, the jewel in the crown for Fairfax India. And you want to add to that, Peter?

Peter S. Clarke
President & COO

No, I think -- I don't think in any way the incremental increase affects any IPO consideration.

V. Prem Watsa
Founder, Chairman & CEO

No, it doesn't. We're just buying -- if we can buy it in at a good price long term, it's a good price for Siemens, who's selling it at a fair price, but for us, we're thinking of it in the long term. Thank you, Junior.

Operator

Tom MacKinnon with BMO.

Tom MacKinnon
BMO Capital Markets Equity Research

Follow-up question, just with respect to the workings of IFRS 17. When we have you've got -- if I look at your balance sheet, you got about $33 billion in bonds. And obviously, movements in interest rates, rising interest rates are going to negatively impact that. But then if I look at your insurance contract liabilities, net of reinsurance, you got about $31 billion in that.

And so you get -- wouldn't you get necessarily the reverse move there to offset the mark-to-market movements on the bonds. It didn't fully work in the quarter. The hit to the assets was about $400 million, but the increase in -- as a result, the discount rate moves was a little over $200 million. So -- why wouldn't those 2 things largely offset? I assume they're kind of about the same duration, but maybe you can help me there.

V. Prem Watsa
Founder, Chairman & CEO

First of all, the liabilities, there are longer duration than our asset, but -- than our bonds. Our bonds are only 2.5 term and duration for our liabilities, Jen?

Jennifer J. S. Allen
VP & CFO

Yes. I think the complexity, Tom, that's coming in. So you're referencing the bond loss of about $405 million, and the total IFRS 17 benefit was $221 million. Part of the issue is within the quarter as you go longer out on that tail on the liabilities, it's not a match on the asset side. So you're getting a bit of a disconnect.

If you look on the YTD basis, though, the bond portfolio was nominal loss, but you do have a significant benefit of about $532 million coming in on the 6 months. And you're going to get a disconnect marginally because we don't match duration, and we also have currency that's mismatched. So your bonds is more driven by your U.S. On the liability side, we've got mixed currencies in there. So it won't be a perfect match. But overall, when you hit 6 months, it is a net benefit.

V. Prem Watsa
Founder, Chairman & CEO

Thank you for that question, Tom. Fran, any more questions?

Operator

No, sir. No, Mr. Watsa. I'll turn it back to you.

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V. Prem Watsa
Founder, Chairman & CEO

Thank you very much, Fran. If there are no further questions, we thank you all for joining us on this call. Thank you.

Operator
The conference has now concluded. Again, thank you for your participation. You may please disconnect at this time.

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