S&P Global
Market Intelligence

Fairfax Financial Holdings Limited TSX:FFH

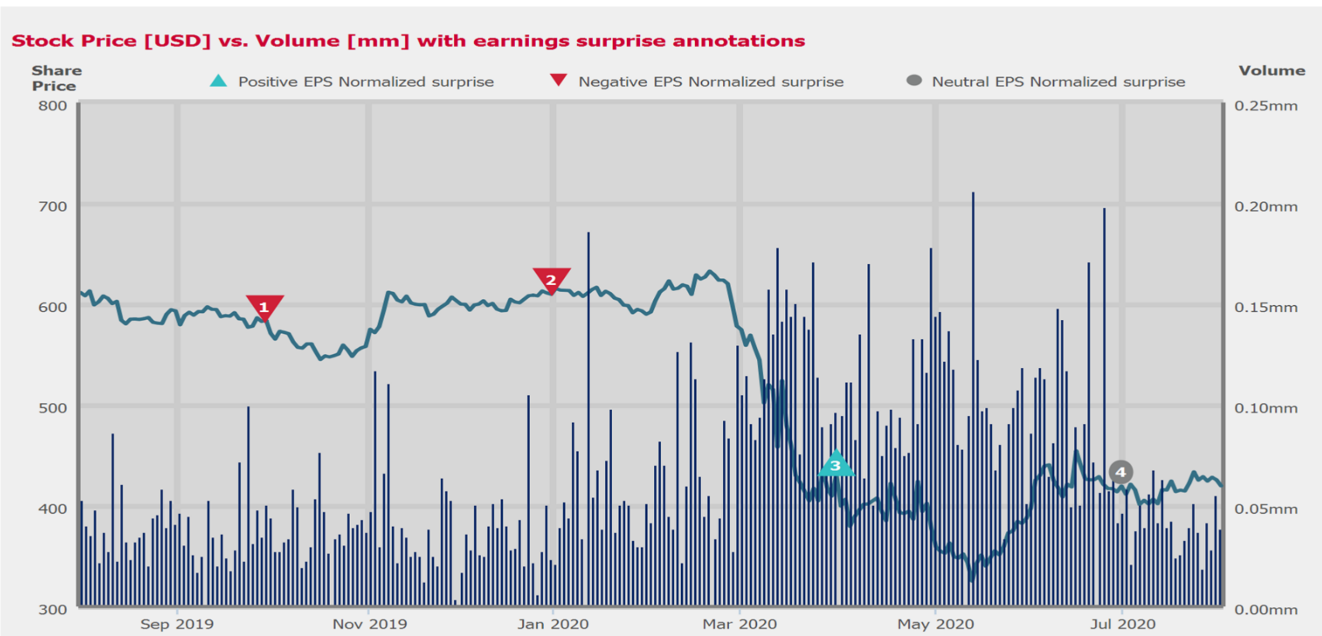
FQ2 2020 Earnings Call Transcripts

Friday, July 31, 2020 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.06	(2.76)	NM	2.00	1.55	28.75
Revenue (mm)	5039.57	5065.10	▲0.51	4860.63	18916.65	21216.98

Currency: USD
Consensus as of Jul-31-2020 11:36 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	5.59	4.92	▼1 (11.99 %)
FQ4 2019	7.55	1.18	▼2 (84.37 %)
FQ1 2020	1.20	2.22	▲3 85.00 %
FQ2 2020	2.06	(2.76)	NM

Table of Contents

Call Participants

EXECUTIVES

Derek Bulas
Associate Vice President of Legal

Jennifer J.S Allen
VP & CFO

V. Prem Watsa
Founder, Chairman & CEO

ANALYSTS

Christopher Glenn Pearson
Davenport Asset Management

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Mark Alan Dwelle
RBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

ATTENDEES

Christopher Gable

Unknown Attendee

Presentation

Operator

Good morning and welcome to Fairfax 2020 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. Mr. Derek Bulas, please begin.

Derek Bulas
Associate Vice President of Legal

Good morning, and welcome to our call to discuss Fairfax's 2020 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, 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 Chair and CEO, Prem Watsa.

V. Prem Watsa
Founder, Chairman & CEO

Okay. Thank you, Derek. Good morning, ladies and gentlemen. Welcome to Fairfax's Second Quarter 2020 Conference Call. I plan to give you some of the highlights and then pass the call to Jen Allen, our Chief Financial Officer, for additional financial and accounting details.

Like I said on our first quarter conference call, these are unprecedented times, and I want to again thank the people on the front lines, our doctors, nurses in our hospitals, our grocery stores, our policemen, our utilities and other -- and many other essential services in our lives that we take for granted, and then have put themselves in harm's way and have gotten us through what we hope is the worst of this pandemic.

I also wanted to thank our employees all over the world, who, for a good part of the last 4 months have almost 100% work from home, not missing a beat in our business of providing outstanding service to our customers. I'm very grateful to all of them. We expect this pandemic to come to an end, and we expect to return to normalcy soon.

Coming now to our results in the second quarter. Fairfax's net earnings in the second quarter were $435 million compared to net earnings of $494 million in the second quarter of 2019, which equates to net earnings per diluted share of $15.26 versus $17.18 in 2019. For the first 6 months of 2020, our net loss was $824 million versus net earnings of $1.3 billion for the first 6 months of 2019, primarily reflecting net unrealized losses on our investments in the first quarter of 2020.

Fairfax's book value per share decreased by 8.3% to $435 in the first 6 months of 2020, adjusted for the $10 per share common dividend paid in the first quarter of 2020. Our Insurance and Reinsurance companies produced a consolidated combined ratio of 100.4% in the second quarter, which included $308 million or 9.2 combined ratio points of COVID-19 losses.

Excluding these losses, the consolidated combined ratio was in the low 90s with continued growth in premiums on the back of a strong pricing environment. All of our major insurance companies, with the exception of Brit, generated combined ratios of less than 100%, with Northbridge 94.3%, Zenith at 94.6%, Allied World at 98%, Crum & Forster at 98.9% and Odyssey at 99.8%.

Brit had a combined ratio of 114.9%, almost 115% in the quarter, driven by COVID-19 losses primarily related to its event cancellation business. Excluding these losses, Brit had a combined ratio of 90.4%. At the end of the second quarter, we have booked COVID losses of approximately $400 million on a net basis across all our companies. Of this, a little less than half comes from business interruption exposures, primarily outside of the United States and about 1/3 comes from event cancellation coverages. The balance comes from areas such as casualty, surety and travel lines.

On a net basis, approximately 70% of our provisions are in IBNR, paid losses about 10% and case reserves make up the remaining 20%. As you can see, there was still considerable uncertainty as to the ultimate cost of the virus. The IBNR estimates may prove excessive in some of our companies, and they may not be enough in others. In addition, as we all are well aware, the pandemic is ongoing. As long as it persists and disrupts the economy, new losses may emerge.

The size of the ultimate loss will also depend to some extent on various court outcomes, as litigation has been filed in many jurisdictions and countries. All in all, we are quite comfortable with the provisions we have made to date in the context of the current market environment and confident of earning an underwriting profit in 2020, absent other extraordinary events.

Our underwriting income excluding COVID losses, continues to increase with a lower consolidated combined ratio and strong organic growth continuing at our companies. Our Insurance and Reinsurance business net written premium increased year-over-year by approximately 5%, primarily due to growth at Northbridge, Odyssey, Brit and Allied world. Zenith is our only company not seeing premium increases as workers' compensation rates in the United States continue to decrease.

Throughout our other lines of business in most parts of the world, we are seeing price increases anywhere from 10% to 13 -- 3 0 30%, and terms are tightening. For the year-to-date, the change in net premium written was 8%. We expect this growth to increase once we get past COVID-19 and the economy opens up fully. We think we're in a hard market and well positioned to expand significantly.

In May, Brit announced its plans in collaboration with Google Cloud to launch Ki, a stand-alone business and the first fully digital and AI-driven Lloyd's syndicate. Ki will aim to significantly reduce the amount of time and effort taken by brokers to place their follow-on capacity, creating greater efficiency, responsiveness and competitiveness. This is a very exciting new venture in the insurtech space with Matthew Wilson, Mark Allan and their team have done an outstanding job getting this initiative up and running.

Speaking of startups, I mentioned in the past, our Digit insurance company, led by Kamesh Goyal. Digit was formed in late 2016 in India. It is a fully digital company focusing on keeping insurance simple. Today, Digit is writing approximately $350 million in gross written premiums as almost 1,700 employees had a market share in India of 1.6% and a growing Indian non-life insurance market. We hold 45% of Digit and are very excited for the future.

For the quarter, operating income was $121 million, and we continue to look to grow by increasing underwriting profits and increasing interest and dividend income. Net gains on investments were $644 million, primarily resulting from a tightening of corporate credit spreads and a recovery in equity markets, subsequent to the global economic disruption in March 2020 caused by the COVID-19 pandemic. We have mentioned this many times at our annual meeting and in our annual reports and quarterly calls, with IFRS accounting, where stocks and bonds are recorded at market and subject to mark-to-market gains or losses, quarterly and annual income will fluctuate and investment results will only make sense over the long term.

In the first quarter of 2020, we had a negative 3.6% return on our investment portfolio. While in the second quarter, we had a positive return of 2.1%, this is for the whole portfolio, offsetting approximately 60% of our investment losses in the first quarter. As I have highlighted in the first quarter conference call, if you look at Page 188 of our 2019 annual report, last column shows that total -- annual total return on our investment portfolio for the last 34 years, there were 4 years when we had a negative return on the total portfolio. In each case, we rebounded significantly the next year.

Just to highlight for you from that table: in 1990, we had a negative 4.4%; 1991, a positive 14.6%; in 1999, a negative 2.7%; in 2000, a positive 12.2%; in 2013, a negative 4.3%; 2014, the next year, 8.6%; 2016, most recently, a negative 2.2%; and the following year, 2017, positive 6.8%. Only 4 years out of the 34 years, we had a negative return. Each time, investors worried about our investments. And each time, as I've said previously, they were proven wrong. As I have said before, almost 60% of our first quarter investment losses were made up in the second quarter. Our history has shown that our returns are very lumpy, and this has worked for us over the last 34 years. We have never focused on steady quarterly earnings.

To give you an example from the past, we purchased 74% of Ridley, some of you will remember, in 2008 for approximately CAD 80 million or $8.44 per share. After receiving $5.50 per share in dividends over the next 7 years, we eventually sold our position at $40.75 per share or CAD 384 million in 2015 for an annual compounded return of approximately 31%. You can see that it was only on sale that we made our return. As mentioned in previous calls, we continue to be focused on monetizing many of our noninsurance investments. We continue to look to put more of our cash to work in our insurance operations, our portfolios without reaching for yield are taking duration risk. The significant opening up on investment-grade spreads, as we mentioned in our previous call, has allowed us to sell some of our treasuries and short-dated bonds and by $3.9 billion in primarily investment-grade corporate bonds with an average yield of 4.1% average term of 4 years. We continue to focus on redeploying cash and increasing investment income.

In the second quarter, we announced a first mortgage real estate platform with Kennedy Wilson to target first mortgage loans secured by high-quality commercial real estate in the western part of the United States, in Ireland and in the U.K. We have had a very successful history of investing with Kennedy Wilson dating back to 2010, and we are very excited about this initiative.

On July 22, it was announced that Blackberry would redeem its 3.75% convertible debentures and issue a new convertible debenture at 1.75%, convertible at $6 per share with a maturity of November 2023, 3 years. We will redeem our current $500 million holdings in the 375 -- 3.75% convertible and subscribe for the same amount of the new issue.

On July 10, 2020, just recently, Fairfax Africa entered into a merger agreement with Helios Holdings Limited, pursuant to which Helios will acquire a 45.9% voting and equity interest in Fairfax Africa and be appointed sole investment adviser to Fairfax Africa. Closing of this transaction is expected to be in the third quarter of 2020, subject to various conditions and regulatory and shareholder approvals.

Upon closing, Fairfax Africa will be renamed Helios Fairfax Partners and continue to be listed in the Toronto Stock Exchange. Helios has been investing in Africa for over 15 years. We are very excited about this transaction, and we welcome Tope and Baba, the co-founders of Helios and the rest of the Helios team to the Fairfax family.

In May, we enclosed -- we closed our Horizon, our acquisition of Horizon North. We acquired 49% of Horizon North through the sale of Dexterra for shares of Horizon North. The combined operations create a leading Canadian services company. We've provided approximately $630 million in cash and marketable securities in capital to support our Insurance and Reinsurance operations to enable our companies to continue to grow in this very strong pricing environment as well as to support fluctuations in our investments from the effects of COVID-19 at the end of the first quarter.

Like I said earlier, we expect these market fluctuations to reverse over time. After these contributions, we continue to have approximately $1.9 billion predominantly in cash and short-term securities in the holding company. Please note, our cash in the holding company is to meet any and every contingency that Fairfax might face in this uncertain period. We are not making any long-term investments with this cash.

All of our large investments like Fairfax India, Fairfax Africa, Recipe, Thomas Cook are all well-financed and do not need any cash from Fairfax. They either have significant cash themselves or have large lines to comfortably take them through this period of uncertainty. Again, I'll remember -- I remind you, we continue to hold CPI-linked deflation floor of contracts, nominal amount of $78 billion and an average remaining term to maturity of 3 years. We carry these contracts at only $14 million, and they continue to provide us with downside protection in the event of a catastrophe -- catastrophic turn of world events.

At June 30, 2020, the company's insurance and reinsurance companies held approximately $13.6 billion in cash and short-dated securities, representing approximately 35% of the portfolio investments. It comprised of $9.7 billion in subsidiary cash and short-term investments and $3.9 billion of short-dated U.S. treasuries. Our investment portfolios would be largely unimpacted by rising interest rates as we have not reached a yield. In fact, we will benefit from rising investment income. With a run rate of approximately $19 billion in gross premium, a huge focus on underwriting discipline, a portfolio of approximately $39 billion and HWIC operating in a stock pickers market, all grounded on our fair and friendly culture built over 34 years, we expect to generate a good return, which we define as 15% for our shareholders over time. We feel the best is yet to come.

Finally, I wanted to highlight a very important initiative I have joined called the Canadian Council of Business Leaders Against Anti-Black Systemic Racism, it's called a BlackNorth Initiative. The initiative is a call to action to rally the Canadian business community to eliminate anti-black systemic racism and create opportunities within the workplace for Black people.

Within Fairfax, I have recently spent time with 16 black individuals across our companies in Canada, United States and the U.K. to get their views on these issues and what we can do better as a company.

I'm pleased to say all of them are very happy at Fairfax, but we have now formed a Black initiatives action committee at the Fairfax level, made up of individuals across our insurance and reinsurance companies to discuss these issues openly and to create more opportunities for people from the black community and all minorities within our company. Needless to say, racism will not be tolerated in our company.

I will now pass the call over to Jen Allen, our Chief Financial Officer. Jen?

Jennifer J.S Allen
VP & CFO

Thank you, Prem. Similar to the introductory commentary I provided during the first quarter conference call, I would like to begin by highlighting some of the developments in our operations and provide additional perspective around the procedures performed to ensure we have addressed the continued global economic uncertainty created by the COVID-19 pandemic.

Fairfax's head office teams continue to work from home and have been operating very effectively over the last 4 months. Our quarterly reporting processes remain robust. And similar to the first quarter, we performed additional procedures to ensure we understood the impact that the developing economic environment had on our subsidiaries. The COVID-19 pandemic has significantly impacted the global financial markets, and those macro events could be seen in Fairfax's first quarter results.

As the economies begin to reopen, we saw some of those positive developments reflected in the financial markets and are evident in aspects of Fairfax's second quarter results.

And now looking at Fairfax's second quarter results. In the second quarter of 2020, Fairfax reported net earnings of $435 million or $15.26 on a per share on a fully diluted basis. That's compared to the second quarter of 2019 when we reported net earnings of $494 million or $17.18 per share on a fully diluted basis. For the first 6 months of 2020, Fairfax reported a net loss of $824 million or $31.76 per share on a fully diluted basis. That's compared to the 6 months of 2019 when we reported net earnings of $1.3 billion or $44.17 per share on a fully diluted basis.

Underwriting loss at our insurance and reinsurance operations in the second quarter of 2020 was $13 million, with a combined ratio of 100.4 and that compared to an underwriting profit of $100 million and a combined ratio of 96.8% in the second quarter of 2019. Underwriting profit in the first 6 months of 2020 decreased to $90 million, with a combined ratio of 98.6% compared to an underwriting profit of $189 million, with a combined ratio of 96.9% in the first 6 months of 2019.

The increase in the combined ratios in the second quarter and first 6 months of 2020 compared to the same period in 2019 principally reflected COVID-19 losses at $308 million and $392 million or 9.2 and 6.0 combined ratio points, respectively, and higher current period catastrophe losses, that was partially offset by higher net favorable prior year reserve development and decreases in the commission and underwriting expense ratio.

In the first 6 months of 2020, the COVID-19 losses were primarily comprised of business interruption exposures that represented 46% and principally from our international businesses, and events cancellation coverage accounted for approximately 36%. The losses were principally comprised of incurred but not reported losses that represented on a net basis, 70% of the COVID-19 losses reported.

Current period catastrophe losses were $96 million and $201 million, or 2.9 and 3.1 combined ratio points in the second quarter and 6 months of 2020. That compared to $41 million and $88 million or 1.3 and 1.5 combined ratio points in the second quarter and 6 months of 2019. Our combined ratios benefited from net favorable prior year reserve development in the second quarter and 6 months of 2020 of $105 million and $201 million, which translated into 3.1 combined ratio points in each of those respective periods. That's compared to net favorable prior year reserve development of $41 million and $91 million, which represented 1.3 and 1.5 combined ratio points in both those respective periods in 2019.

Looking at our operating company results and starting with Northbridge. Northbridge's underwriting profit was $19 million and $30 million, with combined ratios of 94.3% and 95.4% in the second quarter and first 6 months of 2020. That compared to underwriting profits of $3 million in the second quarter and the first 6 months of '19, with combined ratios of 99.1% and 99.4%. Current period catastrophe losses of $22 million and $24 million or 6.5 and 3.6 combined ratio points, principally related to Fort McMurray floods and Calgary hailstorms in the second quarter and 6 months of 2020.

The impact of COVID-19 added $23 million and $26 million or 7.1 and 3.9 combined ratio points of losses to Northbridge's underwriting results in the second and first 6 months of 2020. In Canadian dollar terms, net premiums written by Northbridge in the second quarter and 6 months of 2020 increased by 9% and 14% in each of those respective periods, reflecting strong retention of renewal business, growth in new business and price increases noted across the group.

Moving to Odyssey Group. Odyssey Group reported underwriting profits of $1 million and $14 million, with combined ratios of 99.8% and 99.2% in the second quarter and 6 months of 2020. That compared to underwriting profits of $27 million and $68 million and combined ratios of 96.6% and 95.9% in the second quarter and 6 months of 2019. Current period catastrophe losses of $40 million and $93 million represented 4.6 and 5.4 combined ratio points in the second quarter and 6 months 2020. Those were higher than the current period catastrophe losses of $32 million and $68 million that represented 4.1 and 4.5 combined ratio points in the second quarter and 6 months of 2019.

The impact of COVID-19 added $50 million and $100 million or 5.7 and 5.9 combined ratio points of losses to Odyssey Group's underwriting results in the second quarter and 6 months of 2020. Odyssey Group's combined ratios in the second quarter and first 6 months of 2020 benefited from net favorable prior year reserve development of $17 million and $59 million. That's 1.9 and 3.5 combined ratio points, respectively. That compared to net favorable prior year reserve development of $4 million and $40 million, which equated to 0.5 and 2.7 combined ratio points in the second quarter and first 6 months of 2019.

Net favorable prior year reserve development in the second quarter and first 6 months of 2020 primarily reflected better-than-expected emergence related to U.S. Insurance, Euro Asia and Latin America, partially offset by net adverse prior year reserve development in North America. Odyssey Group was $935 million and $1.8 billion of net premiums in the second quarter and 6 months of 2020, which represented increases of 9% in both those respective periods. The increases principally reflected growth in the U.S. insurance, with increases noted in U.S. crop, financial products and professional liability lines, growth in North America from U.S. property and U.S. Casualty reinsurance and in the growth in the London market.

Moving on to Crum & Forster. Crum & Forster reported underwriting profits of $6 million and $22 million, with combined ratios of 98.9% and 98.1% in the second quarter and 6 months of 2020. That compared to underwriting profit of $13 million and $24 million and combined ratios of 97.5% and 97.6% in the second quarter and 6 months of 2019. Attritional current period catastrophe losses were $9 million and $21 million in the second quarter and 6 months of 2020. That represented about 2 combined ratio points in each of those respective periods, which was higher when compared to $4 million and $9 million or about 1 combined ratio point of the current period catastrophe losses in the second quarter and 6 months of 2019.

The impact of COVID-19 added $17 million and $20 million or 3 and 1.7 combined ratio points of losses to Crum & Forster's underwriting results in the second quarter and 6 months of 2020. Crum & Forster's net premiums written decreased by 3% in the second quarter, principally reflecting reduced exposure, stemming from decreased economic activity associated with COVID-19. That was partially offset by strong price increases across the group.

Net premiums written increased by 8% in the first 6 months of 2020, primarily reflecting growth in surety, credit and programs and accident and health, partially offset by reduced exposure resulting from decreased economic activity associated with COVID-19.

Looking at Zenith National. Zenith National reported underwriting profits in the second quarter and 6 months of 2020 of $8 million and $27 million and combined ratios of 94.6% and 91%, which compared to underwriting profits of $28 million and $68 million of combined ratios of 84.5% and 81.4% in each of those respective periods in 2019. The underwriting profits in the second quarter and 6 months of 2020 included $20 million and $48 million or 14.5 and 15.8 combined ratio points of net favorable prior year reserve development, which compared to $22 million and $59 million or 12 and 16.2 combined ratio points in the second quarter and 6 months of 2019.

The net favorable prior year reserve development in the second quarter and 6 months of 2020 principally reflected net favorable emergence related to accident years 2014 through 2019. Zenith National wrote $116 million and $370 million of net premiums in the second quarter and first 6 months of 2020, which was lower than $154 million and $427 million of net premiums in those respective periods for 2019. The decreases in net premiums written in 2020 primarily reflected lower payroll exposure due to the impact of COVID-19 and price decreases in their workers' compensation business.

Looking at Brit. Brit's second quarter and the first 6 months of 2020 reported underwriting losses of $63 million and $60 million with combined ratios of 114.9% and 107.3%. That compared to underwriting profits of $17 million and $29 million with combined ratios of 96% and 96.4% in each of those same periods in 2019. Current period catastrophe losses of $20 million and $32 million represented 4.8 and 3.9 combined ratio points in the second quarter and 6 months of 2020, which was higher than the current period catastrophe losses of $2 million and $3 million, that represented less than 1 combined ratio point in the second quarter and 6 months of 2019.

The impact of COVID-19 added $103 million and $128 million or 24.5 and 15.6 combined ratio points of losses to Brit's underwriting results in the second quarter and 6 months of 2020. Excluding the impact of those COVID-19 losses, Brit's combined ratios in the second quarter and 6 months of 2020 was 90.3 and 91.7. Net favorable prior year reserve development was higher in the second quarter and 6 months of 2020 at $20 million and $34 million or 4.7 and 4.2 combined ratio points, principally reflecting better than emergence -- sorry, better-than-expected claims experience in 2017 to 2019 catastrophe events.

Net favorable prior year reserve development was nominal in the second quarter and 6 months of 2019. Brit's net premiums written increased by 7% and 5% in the second quarter and 6 months of 2020, reflecting growth in core lines of business, generated by increases -- increased contribution from underwriting initiatives that were launched in recent years, primarily related to Brit's U.S. operations. And price increases were noted across most lines of business, and that was partially offset by reductions in noncore lines of business through active portfolio management.

Turning to Allied World. Allied World reported profits of $14 million and $48 million in the second quarter and 6 months of 2020, with combined ratios of 98% and 96.3% in each respective period. That compared to underwriting profit of $13 million and nil in the combined ratios of 97.9% and 100% in the same periods in 2019. Current period catastrophe losses of $4 million and $30 million in the second quarter and 6 months of 2020, represented 0.6 and 2.4 combined ratio points, principally related to the Australian bushfires and Nashville tornadoes, which compared to no catastrophe losses noted in the comparative period in 2019.

The impact of COVID-19 added $83 million or 12.2 and 6.4 combined ratio points of losses to Allied World's underwriting results in the second quarter and 6 months of 2020. Allied World's underwriting profit in the second quarter and 6 months of 2020 benefited from $25 million or 3.7 and 2.0 combined ratio points of net favorable prior year reserve development, reflecting better-than-expected emergence across all major business segments.

This contract in the second quarter and the first 6 months of 2019's net adverse prior year reserve development of $25 million or 3.9 combined ratio points and $80 million, primarily reflecting deterioration in the insurance segment. Allied World contributed $791 million and $1.6 billion to net premiums written in the second quarter and 6 months of 2020, representing year-over-year increases of 20% and 15%, primarily due to improved pricing and growth across both the Insurance segment and the Reinsurance segment.

Moving on to Fairfax Asia. Fairfax Asia reported nominal underwriting profit and underwriting loss of $1 million with combined ratios of 99.4% and 101% in the second quarter and 6 months of 2020. This was slightly down from an underwriting profit of $1 million and $2 million and combined ratios of 97.9% and 98.4% in those same periods in 2019. The combined ratios in the second quarter and 6 months of 2020 included $5 million and $9 million or 8.1 and 8.3 combined ratio points of net favorable prior year reserve development. That compared to $8 million and $13 million or 17.5 and 14.3 combined ratio points of net favorable prior year reserve development in the second quarter and 6 months of '19.

The net favorable prior year reserve development of both years principally related to automobile, property, workers' compensation and marine loss reserves. Our Insurance and Reinsurance Other segment produced underwriting profits of $2 million and $10 million and combined ratios of 99.3% and 98.3% in the second quarter and 6 months of 2020, which compared to an underwriting loss of $1 million and $4 million with combined ratios of 100.3% and a 100.8% in the same period in 2019.

Net favorable prior year reserve development of $16 million and $25 million in the second quarter and 6 months of 2020, reflected emergence across all segments. That compared to net favorable prior year reserve development of $19 million and $21 million in the second quarter and 6 months of '19, principally at Group Re, Brit Insurance, Fairfax LatAm and Colonnade.

The impact of COVID-19 at $22 million and $26 million or 8.5 and 4.8 combined ratio points of losses in the Insurance, Reinsurance, Other segment underwriting results in the second quarter and 6 months and were primarily noted [at flight] insurance. Our U.S. runoff segment, subsequent to the contribution of European runoff to RiverStone Barbados on March 31, 2020, starting from April 1, 2020, the operating results presented in our MD&A will include U.S. runoff only.

Runoff reported operating losses of $16 million in the second quarter of 2020 compared to operating losses of $13 million in the same period in 2019. Excluding the first quarter of 2020, Part VII transfer and a reinsurance transaction in the first quarter of 2019, runoff reported operating losses of $48 million in the first 6 months of 2020, and that compared to operating losses of $36 million in the same period of 2019. The operating results in the second quarter and 6 months of 2020 were impacted by the deconsolidation of European runoff as noted on March 31, 2020.

And finally, a few comments on our noninsurance companies reporting segment. As presented in our MD&A, restaurants and retail reported a pretax loss before interest and expense and other in the second quarter and first 6 months of 2020 of $44 million and $131 million, which included noncash impairment charges on right-of-use assets and finance lease receivables, principally related to recipes, previously announced restaurant portfolio restructuring, additional COVID-19-related impairments and lower business volumes resulting from the impact of the COVID-19 pandemic.

The restaurants and retail reporting segment did not require any support from Fairfax during the first 6 months of 2020, and necessary credit facility amendments were put in place by those companies to ensure liquidity and covenant compliance would be noted for the foreseeable future. The majority of their businesses are reopened as the lockdown restrictions in industries that they operate begin to be listed.

Now looking at the consolidated results for Fairfax. Our consolidated interest and dividend income decreased year-over-year from $222 million and $458 million in the second quarter and 6 months of 2019 to $205 million and $423 million in the second and 6 months of 2020, reflecting lower dividend income earned on common stock and lower interest income earned due to sales and maturities of our U.S. treasury bonds in the second half of 2019, that was partially offset by the reinvestment of the U.S. treasury bond proceeds, principally into higher yielding, high-quality corporate bonds and short-term investments.

Consolidated share of loss of associates of $23 million and $228 million in the second quarter and 6 months of 2020 compared to share profit of associates of $143 million and $266 million in the second quarter and 6 months of 2019, with the second quarter and first 6 months of 2020 reflecting cash impairment charges of $19 million and $211 million, primarily on the company's investments in Quess, Resolute and Astarta that we recorded in the first quarter of 2020 and reflected share of losses on noninsurance associates from the economic effects of COVID-19. That was partially offset by share of profit at RiverStone Barbados. And to note, the share of profit of associates in 2019 reflected a spin-off distribution gain at IIFL of $173 million.

Our consolidated net gains on investments of $644 million in the second quarter and net losses on investments of $895 million in the first 6 months of 2020 compared to consolidated net gains on investments of $449 million and $1.2 billion in the second quarter and first 6 months of 2019. The increase in net gains in the second quarter of 2020 reflected higher net gains on bonds, reflecting the tightening of the corporate credit spreads, partially offset by lower net gains on net equity exposures.

Our net losses in the first 6 months of 2020 compared to net gains in the first 6 months of '19 and reflected net losses primarily on our net equity exposure, and they were partially offset by higher net gains on our bonds. Fairfax recorded a provision for income taxes of $123 million on pretax earnings at about 22.3% effective tax rate in the second quarter of 2020 and a recovery of income taxes of $110 million on a pretax loss of 10.2 and effective tax rate in the first 6 months of 2020.

Finishing off with our financial position. Our total debt to total capital ratio, excluding the consolidated noninsurance companies, increased to 31.8 at June 30 from 24.5 at December 31, 2019, primarily reflecting increased total debt that related principally to our short-term borrowings on our credit facility at the end of June that was $970 million drawn and the April debt issuance of $650 million and decrease common shareholders' equity, principally related to the 6-month net loss.

During the second quarter, the company repaid $800 million on the credit facility. An additional $270 million was repaid in July, leaving an outstanding balance of $700 million drawn on the facility. At June 30, our book value per share was $435.11 compared to $486.10 at December 31, 2019. That represented a decrease of 8.3, adjusted for a $10 per common share dividend that was paid in the first quarter of 2020, but an increase in -- since the first quarter of 2020 of 3.1%.

And now I'll pass it back over to you, 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 it's fair to everyone on the call. Okay. Ella, we are ready for the questions.

Question and Answer

Operator

[Operator Instructions] Speakers, we got questions in the queue. Our first question is coming from the line of Jeff Fenwick from Cormark Securities.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

So just firstly, I wanted to circle back to the COVID discussion. And I know that's a bit of a fluid environment here, but it seems like when I speak to some of the other industry observers that the commentary that a lot of this is politically driven right now, less so than the specific policy structures today. I'm just wondering what's your take on the exposure? And we think about it in terms of, is the risk of having contract law change, which seems to be maybe a bit of a challenge to get the courts to do that? Is it because Fairfax is focused on specific area of insurance like event cancellation and maybe or just not specific pandemic exclusions and the wordings of those policies? Or is it more because a lot of this is international? And maybe the legal regimes there aren't quite as robust as they are in the U.S.? So just any color you could offer there.

V. Prem Watsa
Founder, Chairman & CEO

Yes. I think, Jeff, you're exactly right. In the U.S. contract law is very specific. We feel there's very little chance that business interruption will be provided that unless you have property damage. You need to have property damage, hurricane, earthquake, well, fire loss, and then you get business interruption, but not business interruption by itself with the pandemic coverage.

So we think it's highly unlikely. There is many governors who are trying to -- 7, 8 governors who are trying to do this. But I think the industry is very strong on this that it's not covered and it's no premium. And so unfortunately, those losses, and we feel for all of these smaller businesses who perhaps gone bankrupt. But it's not covered, and we never got any premium for it. So we feel very comfortable that will prevail. But internationally, as you point out, the contracts are not as -- contract law is not that straightforward. And so we just have to wait and see. But at the end of the day, we provided -- 70% of our reserves are for COVID, IBNR. That's incurred but not reported. So they're not specific to any cases. So we feel we are well provided for it. And as I said before, at the end of the day, as we look at 2020, we think we'll make an underwriting profit. That means a combined ratio below 100%.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

And is there an issue of just duration of these shut-ins and more businesses or more events being disrupted that could factor in here? I mean, if this extended longer, do you have more potential exposure that might require you to take incremental provisioning against this?

V. Prem Watsa
Founder, Chairman & CEO

Yes. If you have cancellations, for example, if you go into 2021, then events could be canceled because of the -- if you provided a cancellation insurance, than you'll be exposed. But then a lot of our exposures by the end of the first quarter 2021 will be runoff, so that it doesn't continue, right, Jeff, because of renewals. So by the end of 2021, cancellation insurance exposures will runoff. So this is -- unlike other catastrophes like hurricanes and earthquakes where it comes, you know the damage, this is sort of what they call a light cat. So it's continuing. We've provided our best estimate. We think it's a good estimate, but we recognize there's uncertainties in the next 6 months, a year.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Okay. And when I strip away those charges in the quarter and a 99% combined ratios quite a bit lower than where Fairfax has been running, and I'm trying to get a sense of how much of this is from the more favorable pricing environment we've been seeing taking a little bit of hard market versus perhaps a period of time here, just with shut down, shut ins, maybe just lower claims frequency overall helping you out, maybe it's a bit of a onetime benefit to take the combined ratio lower? So what's the balance do you think between just robust and better price adequacy?

V. Prem Watsa
Founder, Chairman & CEO

Yes, that's a very good question, Jeff. And broadly speaking, for -- across our businesses, we haven't taken that into account. We haven't dropped our loss ratios, broadly speaking, which means like they're not reflecting the lower claims that you might see because of the shutdown. But we are seeing significant price increases, Jeff, like 10% to 30%, that's rate on rate. We've had rate increases and we're having great increases again. We think these rates are in excess of loss cost trends. And remind you, we have 2001, September 11 when -- 2000, you had price increases in 2000, September 11 came into being and then prices really took off in 2002 and '03 and '04. And in that time period, you might remember, we increased our premiums by 100% for the whole company. And we have -- we're thinking that this is a hard market. Companies are well-reserved. We're well-capitalized. We've got a really good management team, who've been with us for a long time. We have every plan, every expectation that we'll take advantage of that as we have in the past.

Operator

Our next question is coming from the line of Tom MacKinnon from BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Question about the movement of some money down into the subs, the insurance and the reinsurance subsidiaries. So I wonder if you can elaborate a little bit more as to which ones you've been putting the money into. Has it been insurance or reinsurance or runoff? Has it been in the U.S. or Canada or Europe or any other jurisdiction? And just perhaps a little bit more color as to why. I understand markets are firming and capital is needed to write business, but it is the -- but you also mentioned something about just to manage with respect to fluctuations in their investment portfolios. So maybe if you can help us understand the need to put money in to subsidiaries in that regard as well?

V. Prem Watsa
Founder, Chairman & CEO

Yes. Thank you, Tom. So in our run-off, it's very marginal increase in capital to our runoff operations. But -- and you'll remember in RiverStone U.K., it's separate. We've got 60% of that 40% is with almost at -- separately capitalized. But in our Insurance and Reinsurance business, you've got -- you're having significant growth, like we're seeing rate increases. We're seeing, as I said before, and we're seeing significant growth. And then, of course, you've got the volatility of stock prices going up and down. And so we want each of our companies to be really well capitalized to take advantage of these opportunities. And so that's what we've done. And the cash in our holding company, Tom, that's the purpose for it. It's not meant for any investments. It's meant for supporting our companies through this hard market. The hard market isn't going to last for long, as you know, lasted the last time taking September 11, 3 or 4 years. And so our companies, we want them to be really well-capitalized to take advantage of the opportunity.

Operator

Our next question is coming from the line of Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Tom actually stole my first question, so I'll proceed to my second one. It kind of runs together. I noticed you made some partial repayment of the line of credit draws, but there's still a fairly substantial amount of that held at the holding company. Can you just talk about your thinking there? Why you decided to keep the money in? And certainly, the volatility in the markets just died down quite a bit. You did raise the money in April so I would have thought most of that would have been repaid.

V. Prem Watsa
Founder, Chairman & CEO

Yes. We do, I think, $1.8 million -- $1.8 billion something -- and we've taken it down to $700 million. And so we just wanted to keep a large amount of cash in the holding company. And I think we got $1.9 billion at the end of June. And so

$700 million of that is through our lines, it's 4-year lines. That's where we have these lines, Tom. So it's very much where we want to keep. But over time, we want to pay it off totally reduce it to 0.

But right now, we thought we -- we're paying it off slowly, as you said, we've -- in the third quarter, in July, we paid $270 million. And so it's about $700 million net. But over time, we'll reduce it even more, and then I'll take it down to 0.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. And then a question maybe for Jennifer. And I appreciate all the really good disclosures in Note 6 related to the investments and associates and the impairment assessments. Could you just talk about that in a little bit more detail? Several of these holdings, Eurobank is one that comes to mind, but there are others, the fair value is pretty significantly below the carrying value. I'm just trying to understand the process, primarily as a way of understanding what might actually trigger the need for potentially a sizable impairment.

V. Prem Watsa
Founder, Chairman & CEO

So let me just take a first crack at Eurobank, for example. We've said, Tom, Eurobank is an equity accounted investment now, and we have some of our investments are consolidated, for example, Fairfax India and Africa and Recipe and Thomas Cook for you, I think all -- so you have these companies that are consolidated. And so they -- that's how the accounting works. And Thomas Cook and companies like that, we are going to hold for a long time. Share prices fluctuate.

The Eurobank was at about, I think, closed the year at $0.92 and then dropped to $0.40 in the first quarter, maybe even lower, and nothing to do with the marketplace reflecting COVID-19, nothing to do with the bank. It's the finance bank in Greece. And we expect that to come back in spades. We began equity accounting tax division, because we [are] the third at the end of the year. So if this thing lasts for 2 or 3 years and you look at impairments, but we feel pretty comfortable that we don't take -- we're very conservative in taking -- marking up our investments, and we are similarly conservative in -- similarly, we don't react to things on a quarter-by-quarter basis. So we think, over time, investments have been marked appropriately. Jen, you want to add to that?

Jennifer J.S Allen
VP & CFO

Sure. So Mark, as you noted in Note 6, we go through the accounting standard requires you if you've got a publicly listed or private company to provide a fair value and assess that for impairment anytime you're carrying value as Prem indicated on an equity accounted basis, it's higher than that fair value. Not like your mark-to-market investments, we hold significant influence. So the guidance allows you to look for what's called a value in use.

And I just want to highlight that similar to our equity position in the 6 months ended, we haven't yet seen a rebound yet in a lot of these primary holdings that we have. So as an example, our Eurobank, as you noted, the market hasn't come back yet and fully rebounded to where it should be.

So what we do is we look at the underlying cash flows of each of these companies for the next 5 years. Look at Seaspan or -- sorry, Atlas Corp., as an example, very strong company underneath. It's just unfortunate that, that stock price hasn't rebounded, so we take a 5-year view of those cash flows, apply a discount rate. We compare that to peers in its industry to make sure we're a reasonable range. And it's a longer-term view on that. So there's no impairment taken in the second quarter as we can substantiate that carrying value.

And just to note, this is, as Prem noted, a more conservative view. It's almost like a mini consolidation that you do on one line because we have significant influence. So although we're looking at ones that are underwater, stuff like the Bangalore Airport, we only carried at $650 million, but fair value of 1.4. We're not taking that fair value increment through our book value per share either. So it is a very conservative view and a longer-term view on the holdings of these positions.

Operator

Our next question is coming from the line of Jaeme Gloyn from National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

I just wanted to drill down on the leverage, which ticked up a point or 2 across various metrics. Can you refresh my memory on which metric you are specifically focused on as it relates to credit rating agencies? And what they're focused on in terms of maintaining or upgrading current BBB ratings? And then the follow up to that is if you're significantly on-site on the leverage, granted you do want to keep some capital for rolling premiums in their subsidiaries, but why not be a little bit more aggressive here on the share buybacks?

V. Prem Watsa
Founder, Chairman & CEO

Yes. So we are cautious on the share buyback right now, particularly with the opportunity in the Insurance business and particularly given the fact that the hard markets don't last that long. But Jaeme, in terms of -- there's so many definitions. All of the AM Best has a different definition and S&P, and we look at both. We look at gross debt to capital, but we also look at net. So we keep a lot of cash, unlike a lot of companies. These are -- this is cash in the holding company as opposed to cash in the insurance company. We have lots of cash in the insurance companies. But in the holding company, we keep a lot of cash. And if you take it on a net basis, which I always look at, our leverage is not expensive, and it's all bond other than the money that we use with the bank line, all of it is long-term debt.

And so we -- our financial position, we think is very, very sound. And -- but the definitions, Jaeme, vary, and sometimes if you talk to Peter Clarke, he might be able to give you a sense for them.

Operator

Our next question is coming from the line of Christopher Gable from individual investor.

Christopher Gable

My question relates to the rate of dividend, share buyback. But first, I want to recognize the chair's large investment purchased at around a 325 level of stock earlier this year. Appreciate the vote of confidence and the greater alignment of economic to voting interest. Go back to the 2017 AGM meeting when the suggestion was made over time that we buy back the shares issued, number shares issued for the Allied World acquisition, suffice to say that, that's been slower, less slower than anticipated.

We're 3.5 years into it. And although what I'd ask, the answer was plausible, and that was what we're going to use the money to buy back order interest and to fund operations. Well, fast forward a little bit, and I just looked this up yesterday. Based on first quarter book value, Berkshire has a current market price -- Berkshire was selling at 1.3x book. Markel was selling 1.4x book. And Fairfax is at 0.7x book, about 1.5, which is a tremendous buy on one side, but also not a good verdict by the market on the other.

And I was wondering if the firm would consider using the subsidiaries to fund their own expansion, recognize that it's a good market, but we just said that they're adequately financed. Debt's cheap, and they're offset by financial assets on the other side. And that would free up cash to go into a more aggressive share buyback program that currently, it appears to me anyway, that investors are voting with their feet and walking away from Fairfax.

I just went back and checked on relative performance, and I could appreciate a bad couple of years or more than that. But it looks to me that -- I haven't been here 10 years, I've been here about 7, and Fairfax investors have had a lost decade. The share price in summer 2009 is similar to the share price today, sufficing to say that I'm sure the Berkshire and Markel have done considerably better. And I'm wondering what consideration you and the management would give to an aggressive buyback program because I didn't really see it here and mentioned in the presentation, and I don't see any other way out of this discount problem.

V. Prem Watsa
Founder, Chairman & CEO

So Christopher, I understand your question. Let me just say that I said that our share price has been ridiculously cheap. I said that at the annual meeting. I said that in the first quarter. Saying it again, and of course, I've disclosed that I've taken advantage of it and bought as many shares as I could. And to let everyone know it's ridiculously cheap. In 35 years, we never know when the stock price is going up or down, we just know it's cheap. Is it going to go up in the next 6 months? Or is it -- I bought it for that in the next 5 years, I think it will be a terrific return.

And Fairfax as a company, when we retire stock, we're going to retire a ton of stock if it's available. But we have to be careful when we retire it in relationship to the potential we have in the insurance business in terms of our financial position, in terms of the uncertainty in the marketplace. So we have to take all of that into account. Our stock price is dirt cheap.

And I can tell you, and I don't know if it will be 6 months or a year or when it will go up, but it's going to go up very significantly. And that's been my experience over 35 years.

And to our shareholders, I'd say, take advantage of it, if you got the opportunity to. But otherwise, we just have to focus on the long-term.

Operator

Our next question is coming from the line of Chris Pearson from Davenport Asset Management.

Christopher Glenn Pearson
Davenport Asset Management

Not to be too redundant or beat a dead horse, but I still had a question on capital allocation, and I don't need you to review the answer you just gave from, but maybe to expand upon that.

And just help us as shareholders with the math around the writing insurance versus buying back stock. Given the 30% disconnected book value, how is writing insurance right now?

I understand it's a hard market. It's a great opportunity, and these opportunities don't last very long. But how is that allocation of capital more accretive to shareholder value than buying back stock at these levels?

V. Prem Watsa
Founder, Chairman & CEO

So good question, Chris. First of all, we bought, in the past, a significant amount of our stock. We continue to buy some shares in the last year or 2. We've bought quite a bit within our capability to buy the shares. In the past, we bought -- I remember, we bought 20% plus of our stock. So we understand buying shares. We understand the ability to take advantage of them.

Let me just say what happened in Odyssey Re in terms of a hard market. Odyssey went from -- in 2001, it drove about $800 million. It went to $2.5 billion, and it's -- that's premium should expand it significantly. And its investment portfolios went from something like $2 billion to eventually about $8 billion, $7 billion or $8 billion without any new money going in. And so if you're taking a long-term view, you're really building significant economic value when you expand at the right time. And that was the right time in 2001.

We think it's the right time right now. But your point is well taken about buying back stock. This is not something we're not thinking of all the time, believe me. But we don't want to, as I said it before, at the expense of our financial position. And so we're always looking long term. And -- but yes, we're looking at taking full advantage of our share price as and when we can.

Operator

Your next question is coming from the line of [Junior Ross] from private investor.

Unknown Attendee

2 questions. So the first question is the BlackBerry convertible that you guys are going to be doing at 1.75%. Isn't that too low? Or is that because you guys are getting now the convertible at $6?

V. Prem Watsa
Founder, Chairman & CEO

Yes. Sorry. Yes, just on that question, it's because it's -- the conversion prices dropped to $6 a share. And compared to the alternatives that the company had, that this is a very good alternative.

Unknown Attendee

Okay. And the second question, is the stocks that you guys bought in March like Enron, Chevrolet, Google, have you guys sold any of those positions? Or do we have to wait to next quarterly filings to see those?

V. Prem Watsa
Founder, Chairman & CEO

Yes, some of them we are holding. Some of them have gone up significantly, and we're selling. So yes, we don't discuss the names because we might be buying or selling them. And so -- but some of them have gone up quite significantly and up 40%, 50%, and we've sold them.

Thank you very much. Ella, I think that brings us to the end of our conference call. Thank you all for joining us on this call. We look forward to presenting to you after the third quarter. And thank you very much, Ella.

Operator
You're welcome, and that concludes today's conference. Thank you so much, everyone, for your participation. You may now disconnect. Have a great day.