S&P Capital IQ

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Fairfax Financial Holdings Limited TSX:FFH

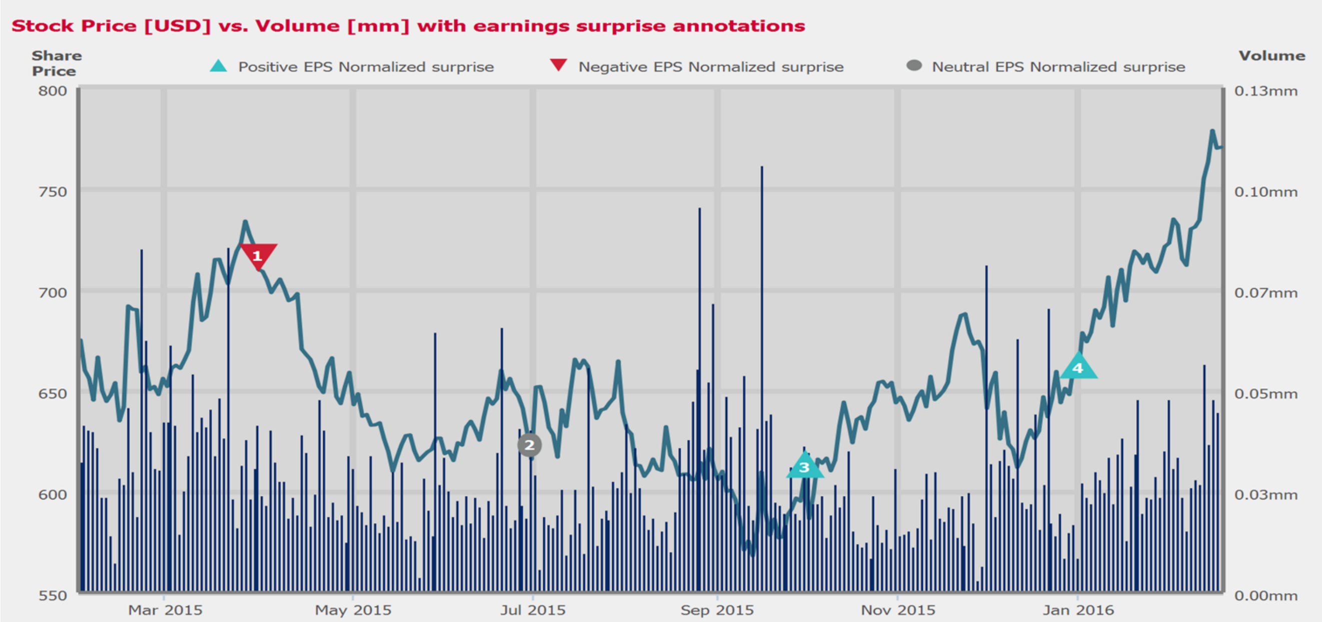
FQ1 2016 Earnings Call Transcripts

Friday, April 29, 2016 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	13.57	4.82	(64.48 %)	20.00	21.50
Revenue (mm)	1997.30	2186.50	9.47	7636.20	8167.70

Currency: USD
Consensus as of Apr-29-2016 7:43 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	4.77	4.52	(5.24 %)
FQ2 2015	3.80	(8.87)	NM
FQ3 2015	11.14	18.16	63.02 %
FQ4 2015	5.60	13.65	143.75 %

Call Participants

EXECUTIVES

David J. Bonham
Chief Financial Officer and Vice President

Eric P. Salsberg
Vice President of Corporate Affairs and Corporate Secretary

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

ANALYSTS

Binoy Jariwala

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Paul David Holden
CIBC World Markets Inc., Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Unknown Analyst

Zack Perry

Presentation

Operator

Good morning, and welcome to Fairfax's 2016 First 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 Rick Salsberg. Mr. Salsberg, you may begin.

Eric P. Salsberg
Vice President of Corporate Affairs and Corporate Secretary

Yes. Good morning, and welcome to our call to discuss Fairfax's 2016 first quarter results.

This call may include forward-looking statements. Actual results may differ, perhaps materially, from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are set out under Risk Factors in our base shelf prospectus, which has been filed with Canadian securities regulators and is available on SEDAR.

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

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you, Rick. Good morning, ladies and gentlemen. Welcome to Fairfax's first quarter conference call. I plan to give you some of the highlights and then pass it on to Dave Bonham, our CFO, for additional financial details.

In the first quarter of 2016, book value per share increased 1.4% adjusted for the $10 per share common dividend paid in the first quarter of 2016. Our insurance companies had an excellent first quarter with a combined ratio of 93.1%, with excellent reserving and significant underwriting profits of $122 million. All of our major insurance companies again had combined ratios of less than 100%, with Fairfax Asia at 76.5%; Zenith at 83.4%; and OdysseyRe at 90.3%. First quarter operating income was very strong at $247 million, offset by net investment losses in the quarter of $160 million, which arose primarily as a result of stock price fluctuations and foreign currency movement.

Excluding all hedging losses and before mark-to-market fluctuations in our investment portfolio and excluding realized gains and losses, we had pretax income of $164 million. Including all hedging losses and mark-to-market fluctuations in our investment portfolio, we reported after-tax loss of $51 million in the first quarter of 2016.

Our insurance and reinsurance business volume was up in the first quarter by 20%, primarily due to Brit. While the combined ratio for our insurance and reinsurance operations, as I said, was 93.1%. At the subsidiary level, the combined ratios in the first quarter were: OdysseyRe, 90.3%; Crum & Forster, 97.6%; Northbridge, in Canadian dollars, 98.6%; Zenith, 83.4%; Fairfax Asia, 76.5%; and Brit was 96%.

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

Net investment losses of $160 million in the first quarter consisted of the following. Please refer to Page 2 of our press release.

Net losses on equity and equity-related investments of $444 million, resulting from the net losses of $336 million and $108 million net loss on our equity hedge due to stock fluctuations and losses on our hedges. Stock fluctuations in 3 stocks, BlackBerry, Eurolife and Bank of Ireland, accounted for most of the net losses of $336 million in common stocks. We realized losses of $34 million on our equity and equity-related holdings in the first quarter of 2016, of which $68 million was a result of APR Energy being taken private. We continue to hold APR Energy and expect these losses to reverse in the future. Now this was offset by realized gains on our equity hedges of $32 million.

Also, we had gains of $433 million, primarily on our treasury and municipal bond portfolio because of the impact of dropping interest rates. The loss on Other, principally foreign exchange, was primarily offset by the translation gain on foreign exchange and comprehensive income on our balance sheet.

As we have mentioned in our annual meetings, annual reports and quarterly calls with IFRS accounting, where stocks and bonds are recorded at market and subject to mark-to-market gains and losses, quarterly and annual income will fluctuate widely and investment results will only make sense over the long term.

Our CPI-linked derivatives with a notional value of approximately $112 billion produced unrealized losses of $55 million in the first quarter. The majority of these contracts, as you know, are based on the underlying U.S. CPI index or the European Union CPI index. Further information is available on Page 3 of our press release, where we have included a table on our deflation swaps. On average, they have 6.3 years to run.

As I've said before, with deflation in the air, these contracts have come to life, but they are very volatile. They can change dramatically quickly as we saw in the first quarter. When you review our statements, please remember that when we own more than 20% of a company, we equity account; and when we own more than 30%, we consolidate, so that mark-to-market gains in these companies are not reflected in our results. As you can see on Page 11 of our quarterly report, the fair values of our investment in associates is $2.8 billion, which has a carrying value of $2.4 billion, an unrealized gain of over $0.4 billion not on our balance sheet.

In March, Fairfax India agreed to acquire a 33% equity interest in Bangalore International Airport from a wholly owned subsidiary of GVK Power and Infrastructure Limited for approximately $325 million. Fairfax India, given its current investment restrictions, will invest $250 million and Fairfax will invest the remainder.

Subsequently, we acquired another 5% from the Zürich Airport. The transaction is expected to close in the second or third quarter of 2016.

In April, Fairfax India agreed to invest approximately $300 million in Sanmar Chemicals Group through a combination of equity, representing a 30% ownership interest; and debt securities. Fairfax India, given its -- the same investment restrictions I mentioned earlier, will invest $250 million and Fairfax or another investor will invest $50 million, within 90 days after the expected closing of Fairfax India's investment in the second quarter of 2016. Sanmar is one of the largest PVC manufacturers in India.

After these 2 investments, Fairfax India will have invested approximately $870 million of the approximately $1 billion raised from the initial IPO in early 2015.

Also in the first quarter, Cara entered into an agreement to acquire 100% interest in St-Hubert for approximately CAD 537 million or USD 415 million. Closing of this transaction is expected to occur by the end of the third quarter of 2016. St-Hubert is the province of Québec's leading full-service restaurant operator as well as a fully integrated food manufacturer. After this investment, Cara will be the third-largest restaurant group in Canada.

Cara completed a private placement offering of subscription receipts at a price of CAD 29.25 per receipt for gross proceeds of approximately CAD 230 million or USD 179 million. That will form part of the financing for the acquisition of St-Hubert. Each subscription receipt entitles the holder to receive 1 Cara subordinate voting share upon closing of the St-Hubert acquisition. Fairfax and its subsidiaries purchased approximately CAD 102 million or USD 79 million to maintain Fairfax's equity interest and voting interest in Cara.

In March, Fairfax completed an underwritten public offering of 1 million subordinated voting shares at a price of CAD 7.35 per share, realizing proceeds of approximately CAD 705 million or USD 523.5 million, net of commissions and expenses.

Also in March, the company completed an underwritten public offering of CAD 400 million principal amount of 4.5% senior notes due 2023, realizing proceeds of approximately USD 303 million, net of commissions and expenses. Proceeds from the stock and bond issue will be used to finance our investment in ICICI Lombard, Eurolife and for other corporate purposes.

Now we continue to be very concerned about the prospects for the financial markets and the economies of North America and Western Europe, accentuated, as we have said many times before, by the potential weakness in China and emerging markets. Again, as we have said now for some time, we believe that there continues to be a disconnect between the financial markets and the underlying economic fundamentals. We see the potential for major dislocations in the marketplace, with many significant unintended consequences; and we want to protect your company from them.

As of March 31, 2016, we have $6.3 billion in cash and short-term investments in our portfolio, which is approximately 20.9% of our total investment portfolio, to take advantage of opportunities that come our way. As a result, in the short term, our investment income will continue to be reduced.

Now I'd like to turn it over to Dave Bonham, our CFO, so he can give you some more information on the underlying financials.

Dave?

David J. Bonham
Chief Financial Officer and Vice President

Thank you, Prem. For the first quarter of 2016, Fairfax reported a net loss of $51 million or a net loss of $2.76 per share on a fully diluted basis, and that compared to the first quarter of 2015 when we reported net earnings of $225 million or $9.71 per share fully diluted.

Underwriting profit at our insurance and reinsurance operations decreased slightly to $122 million at a 93% combined ratio, compared to underwriting profit of $127 million at a 91% combined ratio first quarter of 2015, a decrease in underwriting profit of $5 million year-over-year. Our combined ratio benefited from net favorable prior year reserve development in the first quarter of 2016 of $86 million, translating into 4.8 combined ratio points, slightly higher in dollar terms than the net favorable development of $68 million in the first quarter of 2015, which represented 4.6 combined ratio points.

Current period catastrophe losses in the first quarter of 2016, all of which were attritional, totaled $31 million or 1.8 combined ratio points and were slightly higher than cat losses in the first quarter of 2015, which totaled $28 million or 1.9 combined ratio points.

So now turning to our operating company results, we'll start with OdysseyRe. In the first quarter, OdysseyRe reported an underwriting profit of $45 million at a combined ratio of 90%, and that compared to an underwriting profit of $58 million at a combined ratio of 89% in the same period last year. Catastrophe losses in the first quarter, again all of which were attritional, totaled $27 million, translating into 6 combined ratio points and that was slightly higher than cat losses of $23 million, which translated into 4 combined ratio points in the first quarter of 2015.

Net favorable prior year reserve development of $35 million or 8 combined ratio points in the first quarter of 2016, principally related to property catastrophe loss reserves, and that was higher than in the first quarter of 2015 when Fairfax reported -- or when OdysseyRe reported $11 million or 2 combined ratio points of net favorable prior year reserve development.

OdysseyRe's net premiums written decreased by 14.2% to $484 million in the first quarter of 2016, and that was reflecting the nonrenewal of a Florida property quota share reinsurance contract that we've mentioned in the past. It also reflected the unfavorable impact of foreign currency translation on Odyssey's EuroAsia division, and lower writings generally across several lines of business due to competitive market conditions.

Moving on to Crum & Forster. Crum & Forster reported an increased underwriting profit of $10 million at a combined ratio of 98% in the first quarter, and that compared to an underwriting profit of $5 million at a combined ratio of 99% in the first quarter of 2015. There is no net prior year reserve development or significant current period catastrophe losses in the first quarters of 2016 or 2015.

Crum & Forster's net premiums written increased by 17% in the first quarter, reflecting broad-based growth across most of its lines of business, the incremental contributions from the acquisitions that were made last year and the impact of reduced reinsurance costs.

Zenith. Zenith reported an underwriting profit in the first quarter of $31 million at a combined ratio of 83%, and that compared to underwriting profit of $40 million at a combined ratio of 78% in the first quarter of 2015. The change in 2016 reflected lower net favorable development year-over-year, the $24 million in the first quarter of 2016 or 13 combined ratio points. And that development reflected a net favorable emergence on the accident years 2012 through 2015, and that compared to $36 million or 20 combined ratio points of net favorable development in the same period last year.

The second driver was a year-over-year decrease of 1.2 combined ratio points in the estimated current accident year loss ratio, and that was due to favorable loss development trends for accident year 2015 that are emerging now in 2016. That was partially offset by estimated loss trends for the 2016 accident year and modest price decreases that are now beginning to become reflected in net premiums earned.

Net premiums written by Zenith of $328 million in the first quarter increased by 6% year-over-year, reflecting an increase in exposure, partially offset by modest price decreases.

Northbridge reported an underwriting profit of $3 million at a combined ratio of 99% in the first quarter of 2016, and that compared to an underwriting profit of $6 million at a combined ratio of 97% in the same period last year. The decrease in Northbridge's underwriting profit principally reflected higher underwriting and commission expenses, partially offset by the impact of higher net premiums earned and favorable non-catastrophe loss experience related to the current year. And that was primarily due to improved results in commercial automobile and personal property lines of business.

Net prior year reserve development and current period catastrophe losses were nominal in both the first quarters of 2016 and '15. In Canadian dollar terms, net premiums written by Northbridge in the first quarter increased by 10%, and that was reflective of increased renewals and new business, modest price increases across the group and the impact of reduced reinsurance costs.

Fairfax Asia reported an improved underwriting profit of $12 million at a combined ratio of 77% in the first quarter, and that compared to an underwriting profit of $6 million at a combined ratio of 91% in the comparable period for 2015. Net premiums written by Fairfax Asia decreased by 14%, and that reflected lower writings at First Capital in marine hull, health, engineering and workers' compensation lines of business; and also reflected the impact of a loss portfolio transfer at Pacific Insurance, which reduced net premiums written by $16 million, partially offset by increased retention in First Capital's commercial automobile line of business.

The insurance and reinsurance other segment produced an underwriting profit of $8 million at a combined ratio of 93% in the first quarter of 2016, and that compared to an underwriting profit of $11 million at a combined ratio of 91% in the same period last year. The lower underwriting profit principally reflected lower net premiums earned as well as the inclusion of Colonnade Insurance, which is our newly formed Eastern European operation.

Net premiums written by the insurance and reinsurance other segment decreased by 27% in the first quarter of 2016, reflecting the nonrecurring impact in the first quarter of 2015 on Polish Re of the QBE loss portfolio transfer. There, Polish Re reported net premiums written and incurred losses in its income statement, and that was both equal to the value of the loss reserves that they assumed in that portfolio transfer. The decrease in the insurance and reinsurance other segment also reflected the impact on Group

Re of the cancellation of an intercompany quota share agreement in the fourth quarter of 2015 between Group Re, Fairfax Asia and the unfavorable impact of foreign currency at Fairfax Brazil.

The runoff operating loss of $15 million in the first quarter of 2016 was comparable to its operating loss of $13 million in the same period in 2015, and there were no significant transactions to report in the first quarter of 2016.

Looking at our consolidated results. Consolidated interest and dividend income increased from $114 million in the first quarter of 2015 to $153 million in the first quarter of 2016. That reflected increased holdings of higher-yielding government bonds year-over-year and the impact of consolidating Brit's portfolio investment.

Due to our small base of pretax income in the first quarter of 2016, we had an unusually high effective tax rate, which primarily reflected losses that we incurred mainly at the holding company that we do not capitalize on our balance sheet as deferred tax assets because the recognition criteria under IFRS are not met. And that was -- the effect of that is partially offset by the benefit to our effective tax rate of nontaxable investment income.

And moving to our financial position. Our total debt-to-total capital ratio decreased -- or sorry, rather, increased to 23.4% at March 31, 2016, from 21.8% at December 31, 2015. And that was primarily as a result of the issuance of the CAD 400 million principal amount of 4.5% unsecured senior notes in the first quarter, and that was somewhat offset by the increase in our common shareholders' equity that resulted from the issuance of 1 million subordinate voting shares. And those were principally to finance the investments in ICICI Lombard and Eurolife.

We ended the quarter of 2016 with an investment portfolio which included holding company cash and investments of $29.6 billion compared to $29 billion at the end of 2015.

And now I'll pass it back to you, Prem.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you, Dave. Now we are happy to answer your questions. [Operator Instructions]
So Bob, we are ready for the questions.

Question and Answer

Operator

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

Paul David Holden
CIBC World Markets Inc., Research Division

Wondering if you're able to comment at all on your exposure, if any, to cat events that have taken place so far in Q2? Thinking specifically of the earthquakes in Japan and then Ecuador.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, Paul, on the earthquake in Ecuador and in Japan, very minimal losses for us. In Ecuador, I think it would be fair to say, earthquake insurance is not really available. So the insured losses -- even though the total losses will be significant, insured losses are very minimal. And in Japan, our reading is it's not significant for us.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. Good to know. And then, Prem, as part of your prepared remarks, you pointed to 3 specific equity investments that led to the loss in the quarter. And did I hear right that it was BlackBerry, Bank of Ireland and then Eurolife, is that right?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

I'm sorry, that's -- you're watching exactly what I'm saying. So I'm hearing it properly. No, it's Eurobank, Paul, sorry about that. It's Eurobank, Paul. Eurolife, of course, is a private company and we've -- we're in the throes of closing that purchase.

Paul David Holden
CIBC World Markets Inc., Research Division

Right, which is why I wanted to ask. Okay.

Operator

Our next question is from Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A couple of questions. First, on the Bangladesh Airport deal, is that something that's going to be consolidated in the other affiliates line? Or is that going to be below the threshold that it will just be another equity investment or whatever you would call that?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

I'll pass it on to Dave on that. Dave?

David J. Bonham
Chief Financial Officer and Vice President

Yes. From what we know now, that will be an equity-accounted investment and it'll reside in the other reporting segment as part of the Fairfax India column.

Mark Alan Dwelle

RBC Capital Markets, LLC, Research Division

Okay. The second question is, it looked like you added fairly substantially to the fixed income portfolio in the quarter. I'd heard some of that was just regular appreciation but were there any -- did you do anything with the duration there? Or maybe just some color on where you made a decision...

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, so -- no, we -- during the quarter, Mark, we added 2 U.S. Treasury bonds, long U.S. Treasury bonds, and reduced our cash position some. So what you see is mainly the increase in U.S. Treasury bonds.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

And the last thing I wanted to add is really just maybe an observation or an open-ended question. You don't need to answer it. But I was wondering if Fairfax would consider reporting some type of a number that might be regarded as an operating income number. As you noted at the beginning, there are so many quarters where there's such volatility in the investment portfolio. It seems that the net income number has a tendency to obscure what had been absolutely terrific results in the insurance units.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, no, your point is well taken, Mark. Our operating income, which is underwriting profit from the 93% combined and interest and dividend income is $247 million, which is a very -- a good number. And I've said in our Annual Meeting and annual reports that IFRS skews these numbers, positive or negative, because you've got fluctuations. There's always fluctuations in stock prices, fluctuations in bonds. Until you realize it, until you really realize them or, in some cases, if you're holding them for a long time, it -- on a quarter-by-quarter or perhaps even on a yearly basis, it doesn't make any sense. We've sort of tried to give you that by looking at operating income. But we'll look at it again, Mark. That's a good observation that you have. So we'll look at it again. We tend to -- on Page 31 of our quarterly statement, which is a very nice way to look at it, we show you underwriting profit and we show you the interest and dividend income, we show you what happens in the runoff area. In non-insurance businesses, we show you -- so it's broken down. And so -- and then we show you the unrealized swings, show you the realized gains. And that Page 31 is a good...

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

I like Page 31 quite a bit. Maybe there's a way that it can be included within the press release to get it more visibility rather than just in the supplement.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, rather than keeping it buried in the quarterly report. Okay, no, we'll think about that, Mark.

Operator

Our next question is from Tom MacKinnon from BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

A bit more of a -- maybe a bit of a detail question, maybe Dave might be able to help. But the -- I found the $108 million equity hedge loss a little bit confusing in the quarter, especially given that the Russell 2000 was down a little bit in the quarter. So just what contributed to the hedge loss in the first quarter? Was it...

V. Prem Watsa

Founder, Chairman and Chief Executive Officer

That's a very good question, Tom. Very simply, as we said in our press release and at year-end, we added to our Russell position, meaning we increased our short position to about 100% in -- during -- in that quarter. And our timing wasn't the best, and so the Russell moved up after we increased our short position. So that's part of it. And the other part of it, Tom, was very simply some individual names that we've shorted went up. And so the combination of the 2 resulted in about $100 million. We'd like to say a fluctuation, but that's what it was for the quarter.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay, that's great. And also you noted $642 million of net cash received in connection with these shorts in the quarter. That seems a little high. Maybe just help me understand some of the mechanics of those things. Is it settled every -- are they settled every quarter?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Dave can answer that. Dave?

David J. Bonham
Chief Financial Officer and Vice President

I think it kind of dovetails with what Prem just mentioned and the fact that the Russell 2000 declined significantly inter-quarter, and the timing of the settlements of cash kind of corresponded to when the Russell came down to its lowest point. So we received a lot of cash in. And then kind of mid-quarter from there, the Russell proceeded back up. So a lot of that reversed, and that's what you're seeing in the overall mark-to-market losses on these shorts.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

And in fact, Dave, we have a payable, I guess, of approximately $600 million, which reflects that, I guess.

David J. Bonham
Chief Financial Officer and Vice President

That's right. So a lot of that cash that we received in the quarter is now accrued to be paid out, if market conditions don't change further.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

If the market conditions hold here, Tom, we would be paying that money out.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. So you got cash in when you settled those things inter-quarter. But the movement, since you increased your positions, you didn't have to settle that in cash. Is it...

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

No. No, it's like -- what is it, Dave, every 30 days, 90 days?

David J. Bonham
Chief Financial Officer and Vice President

Yes. Some of them are 30, some of them are 90.

V. Prem Watsa

Founder, Chairman and Chief Executive Officer

30 days, 90 days, depends when it comes in. And then, of course, over the course of the year, it balances itself out. But in any particular quarter, you could get inflows and outflows.

Operator

Our next question is from Gower Ramesh [ph] from Picton Mahoney.

Unknown Analyst

So I was just wondering, with central banks kind of increasingly running out of bullets to prop up the global economy, the U.S. GDP data that came out yesterday was the weakest in 2 years, are you -- would you be thinking about increasing your position on the CPI-related put options? Or are you happy with where you are right now on that?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Gower [ph], that is a very good question. Yes, the U.S. GDP was weaker, Gower [ph], as you said. Today, the European numbers came out, they're weak. In Europe, there was deflation of -- a deflation of about minus 0.2%, I think, year-on-year for April. And so you know that we're in a deflationary environment, and we have weak economic growth. And the worry we've said for some time is with all of this QE1, 2 and 3 in the United States and then followed by Europe and followed by Japan, and negative interest rates in Japan and a whole bunch of negative interest rates in Europe, I mean, I think more than half the German market is now negative. And so in spite of all of that, the economy is very weak. And if we go into a recession after 6, 7 years of economic growth -- it won't be unusual if we go into a recession -- our view has been for some time that we have no bullets, we have no ammunition. And it's all in a setting where, as you know, China has got many markets that it's trying to support, the foreign exchange market, the bond market, the real estate market and, of course, the stock market. So you have that problem and you have a lot of debt that's been raised in the United States. So the banks, we think, are relatively safe because they've gone through some tough times in '08 -- '07, '08, '09. But the risk now is in mutual funds. So there's a lot of high-yield debt and mutual funds, there's a lot of corporate bonds and there's emerging market bonds, all in a mutual fund setting where you can have redemptions at any time. So we think, now that there -- that's what I said, there's many unintended consequences. And we're happy with our position. I mean, it's more than $100 billion that we have. And so -- and they can increase and decrease. In the quarter, they went through CAD 400 million interim in terms of market value. I remember the credit default swaps, and I mentioned it in our annual report: between June 2007 and February 2008, that's February, that's not September when Lehman went under, our credit default swaps went from $200 million to $2 billion, 10x. And that's, like, in an 8-month period. So these things can change dramatically. We're happy with our position, but we have no plans to add to it. But of course, we keep ourselves flexible. But thank you for mentioning that point, Gower [ph].

Operator

Our next question is from Zack Perry from Vine Street Capital.

Zack Perry

You partially answered this question from the gentleman before. And I fully appreciate your rationale and reasons for worries about deflationary pressure, with all the extra spending in emerging markets and China and the debt. But it's always good to ask the other side of the question, if you look at the U.S., with the Fed seemingly on hold, there actually seems to be a lot of inflationary pressures from wages, from rents, basically if you're an American, or probably Canadian, too, the things you need to buy. There seems to be a lot of inflation. Do you think about that at all as terms of a risk, given your position on deflation? Or do you think that's strictly transitory at this point in time?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes -- no, Zack, that's a good question. We watch it carefully, of course. But as we look and see, there's no real pressure on wages yet. Velocity of money -- we look at velocity, we talked about that in our annual meeting. Velocity of money in the United States, in Europe and in Japan are coming down significantly. And that happens when you've got too much debt in the system. There's too much debt in the United States, there's a lot of debt in Europe, even more than the U.S. in terms of percentage of GDP. And in Japan, of course, it's the highest. So you're not able to -- again, inflation going because this velocity of money is plummeting. And the last time it did that was in the '30s in the United States. And so we watch it and we examine it, but it seems to us that it happened -- it hasn't impacted that yet. And it's an interesting thing, more recently this has been shown: with interest rates going down -- negative interest rates and interest rates going down, the Federal Reserve and the ECB and the Japanese -- Bank of Japan, they're expecting people to spend more. But just the opposite is taking place. So in Sweden, if you look, and you can see statistics there, interest rates, saving -- interest rates in banks and deposit rates have come down significantly. And on the other side, savings rates have gone up dramatically in Sweden. And we're seeing it in different places because you have to save more money if interest rates are lower to have the same type of income. And so that's contrary to what people expect, what the Federal Reserve expects and what the other Central Banks expect. So there's a lot of unintended consequences. We worry about them. We want to protect our company from these problems, and we want to survive them. And because we've got these deflation swaps, we expect to make quite a bit of money also in that connection. But thank you for your question, Zack.

Operator

Our next question is from Binoy Jariwala from Sunidhi Securities & Finance Ltd.

Binoy Jariwala

My question pertains to one of the subsidiaries, which is Thomas Cook (India). On the financials, you've mentioned that you've taken an asset impairment of approximately GBP 13.8 million. Could you share something more on this? And secondly, your thoughts on how is Thomas Cook (India) performing? Is it as per your expectations, exceeding expectations? How is it doing?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you, Binoy. Yes, that $13.8 million, as you know, was an impairment with Sterling, was accounts receivable. It was a surprise and they follow the traditional accounting policies in the industry. And -- but they felt that it was not conservative. They got right on top of it, under Ramesh Ramanathan, and took a hard look at it and decided -- we're always -- Binoy, when we see a problem, we react and we take our heads upfront, and that's what Ramesh did. And it's a good thing. In terms of -- and then he can go forward and build his business in Sterling as we go forward. Thomas Cook under Madhavan Menon has the 2, foreign exchange and the travel business. And that business, over time -- because in a country like India, travel is going to increase significantly. Over time, that's going to do very well. And we like Madhavan and what he's done. We bought Kuoni, which is a major competitor, and he has integrated it very well. This happened recently. We like the Sterling Resorts and the possibilities as we go forward in India. And then on top of that, we've got Quess, as you know. And Quess has, I think, publicly said that they will be going public in the next few months. And that's a very good company, run by Ajit Isaac. And Ajit has built an outstanding company. So when you look at Thomas Cook in its various parts, we remain very optimistic for the longer term, for the future. We always do things with a long-term basis, we don't really care about quarterly earnings, Binoy. But we think, over time, it will do very well. But thank you for that question.

Operator

At this time, we have no further questions.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

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

Thank you, Bob.

Operator
That concludes today's conference. Thank you for participating. You may now disconnect.