Fairfax Financial Holdings Limited TSX:FFH

Earnings Call

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Call Participants

EXECUTIVES

Derek Bulas
VP, Chief Legal Officer & Corporate Secretary

Jennifer J. S. Allen
VP & CFO

Peter S. Clarke
President & COO

Wade Sebastian R. E. Burton
President & Chief Investment Officer of Hamblin Watsa Investment Counsel

ANALYSTS

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Nikolaus Priebe
CIBC Capital Markets, Research Division

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning, and welcome to Fairfax 2024 Second Quarter Results Conference Call. [Operator Instructions] Today's conference is being recorded. [Operator Instructions]

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

Derek Bulas
VP, Chief Legal Officer & Corporate Secretary

Good morning, and welcome to our call to discuss Fairfax's 2024 second quarter results. This call may include forward-looking statements. Actual results may differ perhaps materially from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are set out under risk factors in our base shelf prospectus, which has been filed with Canadian Securities Regulators and is available on SEDAR.

Fairfax disclaims any intention or obligation to update or revise any forward-looking statements, except as required by applicable securities laws.

I'll now turn the call over to our President and COO, Peter Clarke.

Peter S. Clarke
President & COO

Thank you, Derek. Good morning, and welcome to Fairfax's 2024 second quarter conference call. I plan to give you some highlights and then pass the call to Wade Burton, our President and Chief Investment Officer of Hamblin Watsa to comment on investments; and Jenn Allen, our Chief Financial Officer, to provide some additional financial details.

In the second quarter of 2024, we had net earnings of $915 million with strong operating income from our insurance and reinsurance operations, adjusted to an undiscounted basis and before risk margin of $1.1 billion. This is up 23% or approximately $200 million from the second quarter of 2023. Driving this result was underwriting income from our property and casualty insurance and reinsurance companies of $370 million in the quarter and a combined ratio of 93.9%.

Consolidated interest and dividend income was $614 million in the quarter, up from $465 million in the second quarter of 2023, benefiting from an increased investment portfolio, now approximately $66 billion, increasing rates over the last number of years and from our mortgage portfolio.

Consolidated share of profits of associates in the second quarter was $221 million. This is down from $269 million in the second quarter of 2023, primarily relating to associate income of Gulf Insurance, which is now consolidated and Fairfax India's IIFL Finance now mark-to-market accounting and losses of Fairfax India's Sanmar chemicals.

Our two most significant associate investments, Eurobank and Poseidon continue to perform very well and make up a significant amount of our associate earnings. Net gains on investments of $242 million in the quarter comprised realized and mark-to-market gains on equity exposures of $377 million. Net losses on bonds of $191 million due to increasing interest rates and other gains of $55 million, primarily preferred shares.

The net gains on investments do not include the expected pre-tax gain of $390 million on the sale of Stelco that was announced in July and is subject to shareholder and regulatory approvals and other customary closing conditions. We have said many times in the past, net gains or losses of investments only makes sense over the long term and will fluctuate quarter-to-quarter and for that matter year-to-year.

As mentioned in previous quarters, our book value per share of $980 does not include unrealized gains or losses in our associate investments and our consolidated investments, which are not mark-to-market. At the end of the second quarter, the fair value of these securities is in excess of carrying value by $1.5 billion, an unrealized gain position or $68 per share on a pretax basis.

Under IFRS 17, our net earnings are affected by the discounting of our insurance liabilities and the application of a risk adjustment. In the second quarter of 2024, our net earnings benefited by $230 million pretax from the effects of discounting losses occurring in the quarter, changes in the risk margin, the unwinding of the discount from previous years and changes in the discount rate on prior year insurance liabilities.

As interest rates move up and down, we will see positive or negative effects on net earnings from discounting. The benefit in the second quarter of 2024 on discounting includes a gain of $161 million from the effect of changes in interest rates. We benefited from increasing rates. This partially offsets the mark-to-market losses on our bond portfolio of $191 million, which is included in our net gains on investments.

Our book value per share at June 30, 2024, was $980 compared to $940 per share at December 31, 2023, an increase of 6% adjusted for the $15 dividend paid in the first quarter. As we said for the last number of quarters, the most important point we can make for you is to repeat what we've said in the past.

For the first time in our 38-year history, we can say to you we expect, of course, no guarantees sustainable operating income of $4 billion, operating income consisting of $2 billion plus from interest and dividend income, $1.25 billion plus from underwriting profit with normalized catastrophe losses and $750 million from associates and non-insurance companies. Fluctuations in stock and bond prices will be on top of that, and this only really matters over the long term.

In the second quarter, we announced Gobinath Athappan has been appointed Chairman and Chief Executive Officer of Fairfax Asia. Gobi has done an outstanding job over his 23 years with Fairfax and Fairfax Asia. Over this time period, Gobi has been the Chief Executive Officer of each of Fairfax's Falcon Insurance in Hong Kong and Pacific Insurance in Malaysia and has been the Vice Chairman of Fairfax Asia since 2015.

Also in the quarter, we were pleased to announce that effective January 1, 2025, Davidson Pattiz will become President and Chief Executive Officer of Zenith Insurance; and Kari Van Gundy will move to Executive Chair.

Over the last 20 years, Davidson has held increasing broader leadership roles at Zenith, most recently as President and has helped build Zenith into the great company it is today. Kari, who has done an outstanding job leading Zenith over the past 10 years will remain as Executive Chair. As mentioned last quarter, with the internal succession at Odyssey Group, these are all great examples of the internal succession we want to achieve at all our companies.

Moving on to our insurance and reinsurance operations. Our insurance and reinsurance business wrote $8.9 billion of gross premium in the second quarter of 2024, up 10.8% versus the second quarter of 2024. The growth was driven by the consolidation of Gulf Insurance, whose operating results were consolidated into our results beginning January 1, 2024. Excluding Gulf's premium of $816 million, gross premium was up approximately 1%.

Our North American Insurance segment increased gross premiums by $122 million in the second quarter of 2024 or 5.5%; Crum & Forster grew 7.8%, Northbridge was up 5.1% in Canadian dollars; while Zenith's gross premiums were down 3.3% in the second quarter of 2024 compared to the second quarter of 2023 due to the continued competitive workers' compensation market.

Our Global Insurers and Reinsurers segment decreased modestly with gross premiums written of $4.8 billion in the quarter, down 2.1% versus the second quarter of 2023. Odyssey's gross premiums were down 9.5% due to lower premium volume in its crop business and the impact of the previously disclosed non-renewal of a large quota share in the fourth quarter of 2023. Excluding the quota share contract, Odyssey's reinsurance business was up 13% in the second quarter of 2024.

Brit's premium was down 6.5% or $72 million in the quarter through the trimming of positions in financial lines, cyber and casualty business and property at teeth. While Allied World was up 8%, led by its reinsurance segment, which had double-digit growth. Our international insurance and reinsurance operations' gross premium was up significantly in the second quarter of 2024, with gross written premium of $1.8 billion, up over 90% or $844 million. The growth was primarily the result of the consolidation of Gulf Insurance that added $816 million of gross premium in our international operations. Excluding Gulf Insurance, our international operations gross premiums were up 3%.

With the closing in the fourth quarter of 2023 of our acquisition of an additional 46% in Gulf Insurance and an additional 7% we bought in April of 2024, approximately 20% of our consolidated gross premium is now coming from our international operations. The addition of Gulf Insurance and our consolidated results provide further diversification and scale within our insurance and reinsurance operations.

We continue to be very excited about the long-term prospects of our international operations, and we expect they will be a significant source of growth over time. Led by excellent management teams, we have a strong footprint in Asia, the Middle East, Eastern Europe, South Africa and Latin America. Our combined ratio was 93.9% in the second quarter of 2024, producing underwriting profit of $370 million. The combined ratio included catastrophe losses of $164 million, adding 2.7 combined ratio points with the Dubai floods costing $58 million and the remaining primarily from attritional catastrophe losses.

This compares to the same combined ratio of 93.9% in the second quarter of 2023, which included catastrophe losses of 2.4 points. Our Global Insurers and Reinsurers posted a combined ratio of 93% and an underwriting profit of $231 million in the second quarter. Brit had another good quarter with a combined ratio of $92.7 million and $45 million of underwriting profit, reflecting the positive underwriting actions taken in the last number of years.

Odyssey Group produced the largest underwriting profit in our group with underwriting profit of $101 million in the quarter and a combined ratio of 93.1%, led by a strong performance again from its reinsurance business.

While Allied World also had a strong quarter with a combined ratio of 93.2% and underwriting profit of $84 million. Our North American insurers had a combined ratio of 93.9% in the second quarter of 2024 and underwriting profit of $108 million. Northbridge had an outstanding quarter with underwriting income of $62 million and a combined ratio of 88.5%, benefiting from strong margins and below average large losses in the quarter. Crum & Forster had a combined ratio of 95.8% and underwriting profit of $44 million, while Zenith had a combined ratio of 98.9% with the benefit of favorable reserve development.

Our international operations delivered a combined ratio of 96.6% and an underwriting profit of $32 million. Colonnade Insurance in Eastern Europe had another excellent quarter with a combined ratio of 91.7% and our Latin American operations continue to post strong underwriting results with a combined ratio of 94.6%. Fairfax Asia and Brit both contributed to our underwriting profit with a combined ratio of 95.6% and 97.3%, respectively.

EuroLife's non-life business had a difficult quarter with an underwriting loss of $2 million, driven by losses in its motor book, and Gulf Insurance had an elevated combined ratio in the quarter of 100.2%, reflecting purchase price adjustments from the acquisition, higher losses on their GIG Kuwait Medical Program, a Saudi business -- a motor business in Saudi and hyperinflation accounting in Turkey.

Excluding the PPA adjustments, Gulf combined ratio was approximately 98%. We expect over the course of the year, Gulf will continue to post normalized combined ratios similar to previous years. Our insurance and reinsurance companies continue to manage their business and performance continues to be measured on underwriting profit on an undiscounted basis. For disclosure purposes, we have provided in our press release an interim report, the discounted combined ratio. For the second quarter, the discounted combined ratio was 82.2% compared to the undiscounted combined ratio of 93.9%.

In the quarter, our insurance and reinsurance companies had prior year favorable development of $132 million or a benefit of 2.2 points on our combined ratio. This compares to $72 million in the second quarter of 2023 or 1.3 points on the combined ratio.

Typically, there's not a lot of movement on reserves in the first half of the year as full actuarial reserve reviews are done in the fourth quarter. Our overall reserves remain very strong. The performance of our insurance and reinsurance operations have not gone unnoticed by the rating agencies. In the quarter, our financial strength ratings and debt ratings were upgraded to A+ and BBB+ by S&P with a positive outlook.

Allied World's A financial strength rating and Fairfax's BBB+ debt rating were put on positive outlook by AM Best and Fitch revised the outlook on their BBB rating for Fairfax debt to positive. Through our decentralized operations, our insurance and reinsurance companies continue to thrive, consistently producing solid underwriting profit and led by exceptional management teams, our companies are positioned very well to continue capitalizing on their opportunities in their respective markets in 2024.

I will now pass the call to Wade Burton to provide some additional comments on our investments.

Wade Sebastian R. E. Burton
President & Chief Investment Officer of Hamblin Watsa Investment Counsel

Thank you, Peter, and good morning, everyone. I would start by classifying things on the investment side of Fairfax as very stable. The investment portfolio stands at $66 billion at the end of the quarter, $37 billion is in fixed income, including USD 18 billion in Canadian treasuries and another $4.9 billion in mortgages.

In addition, we have approximately $9 billion in cash and short-term investments, duration is 2.7 years, including cash and the yield is 5.1%. With the short duration, very little credit risk and given that we are in mostly liquid securities, we think the fixed income portfolio is in great shape to protect on the downside, to provide a good return and to give us good flexibility to capitalize on opportunities as they come up.

Run rate interest and dividend income is $2.45 billion. And as Prem has mentioned in past calls, we've never had this kind of visibility on the investment side, and it puts Fairfax in an excellent position from an earnings and a capital perspective for the next few years.

On the $20 billion equity part of our portfolio, the biggest investments are Eurobank and Poseidon, making up $4 billion or 20% of the total. Eurobank continues to do very well, just reported a great quarter on track to record earnings for the year. We're expecting well over $1.2 billion in net income in 2024. The balance sheet has never been stronger with Basel III fully loaded core Tier 1 of 16.2%. The team continues to work well together under the very capable hands of their CEO for Fokion Karavias.

The bank has also paid its first dividend in more than 16 years, a EUR 0.09 per share dividend, which resulted in a $128 million dividend payment to Fairfax.

Poseidon also continues to perform well under the leadership of David Sokol and Bing Chen. Poseidon owns 184 cargo ships, all with long-term contracts and with the average life of the contracts around 9 years. Poseidon also has excellent visibility for the future income.

It's amazing looking back in 2019, Poseidon made $0.80 a share in net income. This year, it's on track to making $1.60, a double, a fantastic performance. We own 43% of Poseidon and are very excited with its long-term prospects.

In July and not reflected in our second quarter results was the sale of our stake in Stelco. Average cost for approximately 13 million shares was CAD 20 per share. And at June 30, we carried it on our balance sheet at approximately $29 per share. We agreed to sell for $70 per share for proceeds of CAD 910 million with a very healthy pretax gain of CAD 531 million or USD 390 million, an excellent outcome from an outstanding entrepreneur, and you can bet we hope to work on new investments with Alan Kestenbaum in the future.

Final thing on the acquisition front. You've seen the press release of our purchase of Sleep Country Canada. We are thrilled to have Sleep Country and its talented team led by Stewart Schaefer, joined the Fairfax Group. Sleep Country is Canada's leading sleep retailer with brands that are recognized by all Canadians. We look forward to working with Stewart and the entire Sleep Country team to further develop this remarkable Canadian success story over the long term.

Lastly, the high prices of stock markets means opportunities are not pouring our way in marketable securities. And the small size of this part of our portfolio reflects that. Our team continues to screen through stock markets worldwide, looking for value, which will no doubt emerge. But in the meantime, our private and strategic investments provide excellent earnings and our fixed income portfolio continues to produce strong interest income with rates well above 4%.

And with that, I will now pass it to Jenn Allen.

Jennifer J. S. Allen
VP & CFO

Thank you, Wade. I'll begin my comments on the net benefit IFRS 17 had within our consolidated statement of earnings in the second quarter of 2024. Net earnings in the second quarter of 2024 of $915 million included a pretax net benefit of $230 million related to IFRS 17 accounting for our insurance and reinsurance contracts. Consistent with prior periods, this pretax benefit is reported within two financial statement lines in our consolidated statement of earnings.

First, included with our Assurance service result as a benefit from discounting of losses and ceded loss on claims, net of changes in risk adjustment and other of $434 million, and this was partially offset by a second component that's presented in the financial statement line named net finance expense from insurance and reinsurance contracts of $205 million. That's comprised of interest accretion or an expense of $366 million in the second quarter, reflecting the unwind of the effects from discounting associated with net claim payments made during the period. And that was partially offset by the benefit of the effect of increased discount rates during the period on prior year net losses on claims of $161 million.

As Peter noted in the second quarter of 2024, the benefit of the effect of the increasing discount rates on the prior year net loss on claim of $161 million, partially offset the net losses recorded on the company bond portfolio of $191 million.

A few comments on our non-insurance company results in the quarter. Operating income of our non-insurance company reporting segment decreased modestly to $25 million in the second quarter of 2024 from $37 million in the second quarter of 2023. If you exclude the impact of Fairfax India's performance fee to Fairfax, which was nil in the second quarter of '24 compared to an accrual of $36 million in the second quarter of '23.

The operating income of the non-insurance companies decreased to $25 million in '24 from $73 million in 2023. This reflected lower operating income at Fairfax India, primarily driven by share of loss from Fairfax India's investments and associates in 2024 compared to share profits in 2023, and that principally was reflected from a loss from its Sanmar Chemical Group investment in the second quarter of '24 of $39 million compared to share profits in the second quarter of '23 of $13 million.

This was partially offset by higher operating income in our restaurant and retail segment. Looking at our share of profit from investments in associates in the second quarter of 24, our consolidated share profit of associates of $221 million principally reflected share of profit of $126 million from Eurobank, $67 million from Poseidon, and $32 million from Peak Achievement that principally reflected its sale of rolling sporting goods, and it was partially offset by the share of loss of $39 million from Sanmar Chemicals Group that I noted previously.

In the 6 months 2024, the share profits was $349 million, reflected share of profit of $205 million from Eurobank and $101 million from Poseidon. That was partially offset by the share of loss of $49 million from Sanmar Chemicals Group.

I want to highlight that the share of profit of $205 million from Eurobank in the first 6 months of '24, decreased from the $225 million in the first 6 months of '23 million as a result of certain onetime restructuring costs recorded by Eurobank in its first quarter of '24 and recycling of cumulative currency translation losses to Eurobank's consolidated statement of earnings upon a disposal of a subsidiary in its fourth quarter of '23. These onetime costs and recycling of currency translation losses are recorded on a quarter lag by Fairfax, therefore, partially offset the increase in Eurobank's net income.

I'll comment on a few of the financial transactions. On April 25, 2024, we completed the mandatory tender offer for the non-controlling interest in Gulf Insurance and increased our equity interest from 90% at March 31, 2024, to 97.1% for cash consideration of $127 million. And then on May 23, 2024, Digit Insurance, the general insurance subsidiary of our investment in our associate Digit completed an initial public offering, comprised of new equity issuance and an offer for sale of existing equity shares held by Digit and other shareholders.

This values Digit insurance at approximately $3 billion or INR 250 billion at INR 272 per common share. As a result of the initial public offering and subsequent increase in the fair value of Fairfax's investments in the Digit compulsory convertible preferred shares at June 30, 2024. In aggregate, Fairfax recorded a total pretax benefit of $150 million. This $150 million to common shareholder equity is comprised of two components: First is a gain of $106 million that was recorded directly in our statement of changes in equity and the net change in capitalization line on our 49% equity interest in Digit.

That gain on the 49% equity interest in the investment in associate represents the 6.3% that was sold of equity interest in the Digit Insurance in the IPO offering and Digit dilution gain related to its subsidiary Digit Insurance new equity issuance, both completed in the initial public offering at the INR 272 per common share.

The second component of the pretax gain of $150 million was a net gain of $44 million recorded in net gain on investments in our consolidated statement of earnings related to our investment in the Digit compulsory convertible preferred shares or CCPS.

As Digit Insurance's common shares are now traded on the BSE and NSE in India, the fair value of Fairfax's investment in the Digit CCPS are valued using the traded share price of Digit Insurance, which closed at INR 338 per common share at June 30, 2024, valuing 100% of Digit Insurance at $3.7 billion. Going forward, the company's investment in the Digit CCPS will be mark-to-market on a quarterly basis, reflecting changes in Digit Insurance traded share price.

While the company's investment in associate will continue to be accounted for under the equity method of accounting, with disclosure provided on the fair value of our investment in associates, which will also be now derived from Digit Insurance's traded share price.

I'll close with a few comments on our financial condition. On June 24, 2024, we completed an offering of $600 million principal amount of 6.1% unsecured senior notes due in March 15, 2055 or the 2055 note and the second reopening of our $600 million principal amount of 6% notes due in 2033, for an additional $150 million principal for an aggregate of $750 million principal amount outstanding on the 2033 notes. Subsequent to June 30, on July 19, 2024, Allied World became the primary co-obligor of those 2055 notes, in exchange for cash received from the holding company of $597 million.

And on July 24, 2024, Allied used the majority of those proceeds to redeem its outstanding $500 million principal amount of 4.35% senior notes that were due in October '25. The result of the debt issuance and redemptions in the first 6 months of '24 is reflected in our liquidity position of the company. At June 30, '24, our cash and investments in the holding company was $2.5 billion, but not yet reflected was the subsequent payment on July 19 of that $597 million from the holding company to Allied World for becoming the primary co-obligor on those 2055 notes.

In the first 6 months of '24, we purchased for cancellation 854,000 subordinate voting shares principally under our normal course issuer bid at a cost of $938 million or U.S. approximately $1,098 per share. That included 613,000 shares on a cost of $678 million completed in the second quarter of '24.

The holding company also has access to our fully undrawn $2 billion credit facility that was amended in July to extend the expiry from July 14, 2028 to July 17, 2029. We also have an additional $2 billion at fair value of investments in associates and consolidated non-insurance companies owned at the holding company and no long-term debt maturities until 2026.

At June 30, 2024, the excess of fair value over the carrying value of our investment in non-insurance associates and market-traded consolidated non-insurance subsidiaries was $1.5 billion compared to $1 billion at December 31, '23. That pre-tax excess of $1.5 billion is not reflected in our book value per share, but is regularly reviewed by management as an indicator of investment performance and not fully reflected in that $1.5 billion is the subsequent event described by Wade on the July 15, 2024 Stelco transaction, where the company estimates a pretax gain on the sale of its holdings of Stelco common shares of approximately $390 million or an additional $315 million in excess of fair value over carrying value to the $1.5 billion we reported at June 30, 2024.

The company's total debt to total cap ratio, excluding non-insurance companies, increased to 25.9% at June 30, 2024, compared to 23.1% at December 31, '23, principally reflecting the issuance of our $1 billion principal amount 6.35 senior notes due in 2054.

Had the Allied World senior note redemption mentioned previously been completed on June 30, 2024, our total debt to total cap ratio, excluding the non-insurance companies would have been 24.9%. And in closing, common shareholders' equity increased by $115 million to over $21.7 billion at June 30, 2024, from just over $21.6 billion at December 31, 2023. It primarily reflected net earnings attributed to shareholders at Fairfax of $1.7 billion, partially offset by purchases of 854,000 subordinate voting shares for cancellation, for cash consideration of $938 million or as I noted, USD 1,098 per share. Payments of common and preferred share dividends of $388 million and other comprehensive loss of $229 million relating to unrealized foreign currency losses net of hedges.

That concludes my remarks for the second quarter of 2024, and I'll now turn the call back over to Peter.

Peter S. Clarke
President & COO

Thank you, Jenn. We now look forward to answering your questions. Please give us your name and company name and try to limit your questions to only one, so that it's fair to all on the call.
Amanda, we are now ready for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Nik Priebe with CIBC Capital Markets.

Nikolaus Priebe
CIBC Capital Markets, Research Division

Okay. I just wanted to ask about exposure to a few higher profile events that happened subsequent to quarter end. It looks like estimates for insured losses from Hurricane Beryl and the CrowdStrike induced IT, outage has looked pretty benign. But I was wondering if you could just give us your perspective on what the anticipated impact of those two events might look like from a Fairfax's standpoint?

Peter S. Clarke
President & COO

Sure, Nick. You're right. Very little impact we expect from those two events. Beryl, especially, we don't see -- it's more of an attritional cat loss for us we expect in the third quarter. And in regards to CrowdStrike, the event occurred over 2 years -- 2 weeks ago. And so we're closely monitoring our exposure and supporting our clients. And it will mostly impact business interruption and contingent business interruption.

But what's mitigating the loss is the quick corrective patch by CrowdStrike. And the waiting periods that we had within the policies or most have within their policies, which are 8 to 12 hours. So we've received a number of notifications to date, but mostly precautionary in nature. And we don't believe it will be a material event either.

Next question, Amanda.

Operator

Our next question comes from Tom MacKinnon with BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

If you kind of look at the financial condition, very strong here, even if you pro forma the cash, it's over $2 billion uptick in financial strength ratings as well. And -- but what I've noticed here is the uptick in your share buybacks over 613,000 shares in the quarter. That's nearly triple what you purchased in the first quarter and then almost 6x, which you purchased on a quarter -- on the fourth quarter of last year. So can you comment on your appetite for increased share buybacks and your -- and what that indicates in terms of your -- what you think in terms of where the shares are valued as well?

Peter S. Clarke
President & COO

Sure, Tom. And as we said in the past, in regards to capital allocation, our first priority is financial strength of Fairfax. And how we define that is cash and marketable securities of over $1 billion in the holding company, no near-term debt maturities, which we have refinanced now pretty much for the next 3 years. And our unused -- we have $2 billion unused line of credit. So strong financial strength, and that's how we measure it. That's our first priority.

Then we want to support our insurance companies. And we've done that over the last 3 or 4 years. Our companies grew almost 16% per year over the last -- since 2019, and we supported that growth through capital generation of the insurance companies. Now with that premium leveling off last year and this year, it's producing excess capital and strong dividends to Fairfax. And we've been using that to buy our shares. We think they're at great prices, and we'll continue to do that going forward.

Next question, Amanda.

Operator

Our next question comes from Jaeme Gloyn with National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

I just want to touch on a theme in the industry today regarding the casualty reserving. Looks like favorable reserve development across the business lines on a higher level basis. But can you give us some more granularity in terms of some of the businesses and specifically around casualty reserving, what you're seeing there? Are you seeing any of the same impacts that the other industry -- some of the industry players are seeing? That would be helpful.

Peter S. Clarke
President & COO

Sure. Thanks, Jaeme. Our reserves continue to remain strong. For the first 6 months, we had favorable development of around $162 million. As you said, some of our companies have experienced the casualty development the industry is seeing, especially on those 2014 to 2019 accident years, but it has really been made up, but more than offset by favorable development in other lines and in general IBNR.

Our companies have done a wonderful job managing the cycle, writing much less business during that period and then expanding in the hard market years, 2000 and onwards. So of our $34 billion net reserves, about 80% are in these hard market years. And on those years, the companies have not done -- have not reduced the initial loss picks or generally they haven't reduced them on the long tail line. And we received significant price increases during those years, too.

So overall, we've seen some development on the casualty lines. It's been offset by redundancies elsewhere, and we just think our reserves are in a very strong position today.

Next question, Amanda.

Operator

[Operator Instructions] Our next question comes from Scott Heleniak with RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Just a quick question on the Gulf acquisition. You had disclosed the combined ratios for the first 6 months there. And just wondering if you can talk about what you think those can get back to? Are you referencing getting back to historical levels or normalized levels. What is that kind of range that you are kind of referencing related to Gulf?

Peter S. Clarke
President & COO

Sure. So we've been invested in Gulf for the better part of 12 years. And if you look over that time period, they produce consistently combined ratio below 95%, I think, on average, about 94%. So that -- we'd expect it would run at that rate going forward and in the future.

Next question, Amanda.

Operator

Our next question comes from Jaeme Gloyn with National Bank.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Yes. I just wanted to -- I have a question on the growth outlook as well. So organic growth, I think came in just below 1% in the quarter. Some of that was impacted by the Odyssey crop insurance. But maybe talk us through what you're seeing in the market? Other commercial insurers are seeing mid-single to maybe even double-digit growth. So what is it that you're seeing that's causing you to maybe take a little bit of a step back in the growth profile of the underlying businesses.

Peter S. Clarke
President & COO

Sure, Jaeme. Yes. So growth has slowed down in the first 6 months of 2024. I think on a gross basis, we're up about 1% on a net basis, 3%. That of course, excludes the Gulf acquisition. And it differs across the group by line of business, by geography.

Odyssey is down 9.5%. But as I said, it's really affected by two things. It's pulled back and diversified some of its crop business. And then the non-renewal of this quota share that we've been talking about, that ends in the fourth quarter. So that will normalize in the fourth quarter, and we'll see that effect, which is about $128 million, I think, in the second quarter.

Allied is still growing. It's up 8%. Crum & Forster is growing. Northbridge is growing. Brit, as we talked about in the past, they've been optimizing their portfolio and pulling back, and I think we'll continue to see -- in the last 6 months, we'll see them grow as well. So overall, things are positive. We're still getting rate in excess of loss cost based off strong margins in the business.

So I would expect growth may pick up in the second half of the year, but our companies have really taken advantage, as I said before, of the hard market growing significantly in 2020, '21 and '22. So it's hard to tell. It will depend on the market, but I think we'll still see growth going forward.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Got it.

Peter S. Clarke
President & COO

Next question, Amanda. Sorry, Jaeme, go ahead.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

I kind of assumed I might be the only one right now. But just going back to Tom's buyback question, and you mentioned excess capital and dividends. Did you -- was there any dividend funneled back up to Fairfax in Q2? And then with the slower growth rate, I guess, what's the cadence? Or how should we think about that excess capital flowing back in terms of like the timing of that?

Peter S. Clarke
President & COO

Yes, we play it by year. We make sure that each of our insurance operations are well capitalized first, both regulatory capital, rating agency capital and then we look to take dividends up. We'll be taking dividends on a quarterly basis. At year-end, we take a very close look at all the capital levels as well.

But maybe I'll -- Jenn, any comments on the dividends in the quarter?

Jennifer J. S. Allen
VP & CFO

Yes. So Jaeme, we did receive additional dividends in the quarter. On a YTD basis, we do provide disclosure in our MD&A under the liquidity section. So I'll refer you to that for the additional dividends that were received.

Peter S. Clarke
President & COO

Next question, Amanda.

Operator

Our next question comes from Scott Heleniak with RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Just one quick follow-up. Just wondering if you could talk to share a little more on the Sleep Country acquisition, the opportunity you see there by buying the company outright, and how you were kind of balancing that versus maybe doing insurance M&A or some other type of transaction.

Peter S. Clarke
President & COO

Thanks, Scott. Yes, in July, we announced that we entered into an arrangement agreement to buy Sleep Country for $35 per share. We think Sleep Country will be a great investment over the long term and are very happy that their talented team led by Stewart Schaefer, will join the Fairfax Group. As the transaction is not closed yet, there's not a lot more we can say on that. So hopefully, it will close in the third or fourth quarter.

Next question, Amanda.

Operator

Thank you. At this time, we have no further questions. Mr. Clarke, I'll hand the call back to you.

Peter S. Clarke
President & COO

Thank you. Well, if there are no further questions, thank you for joining us on this call. And thank you, Amanda.

Operator
Thank you. That concludes today's conference. Thank you for participating. You may disconnect at this time.