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Earnings Call

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Call Participants

EXECUTIVES

Derek Bulas
VP & Chief Legal Officer

Jennifer J. S. Allen
VP & CFO

Peter S. Clarke
President & COO

V. Prem Watsa
Founder, Chairman & CEO

ANALYSTS

Ashwin Mudaliar
Edward D. Jones & Co., L.P.

Howard Flinker
Flinker & Co

Mark Alan Dwelle
RBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

ATTENDEES

Unknown Attendee

Presentation

Operator

Good morning, and welcome to Fairfax's 2023 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 Mr. Derek Bulas. Mr. Bulas, please begin.

Derek Bulas
VP & Chief Legal Officer

Good morning, and welcome to our call to discuss Fairfax's 2023 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. 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 Chairman and CEO, Prem Watsa.

V. Prem Watsa
Founder, Chairman & CEO

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

Beginning January 1, 2023, we were required to adopt IFRS 17 accounting. This has resulted in many changes to our financial statements. The most significant change being the discounting of our insurance liabilities and the provision of a specific risk margin for the uncertainty. I want to stress that this new reporting requirement will not change the way we manage the business. And we will continue to focus on underwriting profit on an undiscounted basis with strong reserving.

We will continue to show our combined ratios and operating income on an undiscounted basis. Preparing for this transition has been a massive amount of work over multiple years for our accounting, actuarial and finance teams all across the world, and particularly for Jen Allen, our Chief Financial Officer, and her small team at Fairfax, a big thank you to all.

The most important point I can make for you is to repeat what I said in our Annual Report and our recent Annual General Meeting, our AGM. For the first time at our 37-year history, I can say to you, we expect, of course, no guarantees, our operating income to be more than $3 billion annually for the next 3 years. Operating income consists of $1.5 billion from interest and dividend income, $1 billion plus from underwriting profit and $0.5 billion from noninsurance companies. This works out to about $100 per share after interest expenses, overhead and taxes. Our first quarter is running at these levels. Fluctuations in stocks and bond prices will be on top of that, and this will really matter over the long term.

Our fixed income portfolio remains conservatively positioned with approximately 80% in government securities and only 14% in short-dated corporate bonds. We have locked in our interest and dividend income at over $1.5 billion for the next 3 years. And we continue to do all we can for our Ukrainian employees. Our whole company is behind all 3 outstanding Ukrainian presidents as they look after our employees under extremely difficult conditions.

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

Peter S. Clarke
President & COO

Thank you, Prem. We had net earnings of $1.25 billion for the first quarter of 2023, driven by strong performance across all sources of earnings. As Prem highlighted, we had record adjusted operating income of $843 million generated through underwriting income of $314 million, interest and dividend income of $312 million from our insurance and reinsurance operations and our share of profit of associates of $218 million. Also leading to the strong first quarter were net gains on investments of $771 million and the benefit of the effects of discounting and risk adjustment of $310 million.

Our combined ratio for the first quarter 2023 was 94% and included catastrophe losses of $192 million or 3.7 points on our combined ratio, while our gross premium was up 7.2%. We continue to see favorable market conditions in many of our major lines of business, and we'll talk a little more about that within the underwriting results later.

Our investment return for the quarter was 2.6% with strong interest and dividend income, increased share of profit of associates and unrealized mark-to-market gains on our equities and bonds. The net gain on our bond portfolio of $319 million in the first quarter consisted of realized losses of $332 million, principally from the sale of short-dated bonds and unrealized gains of $651 million, primarily from government bonds. The sales of the shorter-term bonds were replaced with 3- to 5-year U.S. treasuries, extending our duration to approximately 2.5 years.

Our net gains on our equity and equity-related holdings were $410 million in the quarter, driven by unrealized mark-to-market gains on our Fairfax TRS, BlackBerry, MYTILINEOS and Foran Mining. As mentioned in previous quarters, our book value per share of $803 does not include unrealized gains or losses in our equity accounted investments and our consolidated investments, which are not mark-to-market. At the end of the first quarter, the fair value of these securities is in excess of carrying value by $439 million, an unrealized gain position, or $19 per share on a pretax basis.

Under IFRS 17, our net earnings are affected by the discounting of our [Technical Difficulty] and the application of a risk margin. In the first quarter of 2023, our net earnings benefited by $310 million pretax. The effects come from the discounting of losses occurring in the current year, changes in the risk margin, the unwinding of the discount from previous years and changes in the discount on prior year insurance liabilities. As interest rates fluctuate, we will see positive or negative effects on net earnings from discounting. Jen Allen will provide further details.

Our insurance and reinsurance businesses continue to grow all over the world as we wrote $7.1 billion of gross premium in quarter 1, 2023. Our gross premiums were up 7.2% this quarter versus the first quarter of 2022, an increase of approximately $500 million. This growth is driven by the strong margins that prevail in many of our markets and increased pricing on property business, especially catastrophe exposed.

Our global insurer and reinsurer segment had the largest absolute premium growth at $233 million, up 6% this quarter versus the first quarter of 2022. Allied World was up 7.5% in the quarter, while Odyssey was up 6.5%, both driven by double-digit premium growth in the reinsurance operations. Brit's premium was relatively flat with premium up at key 36%, while premiums were down at Brit's other businesses, largely due to reductions in its North American property binder business.

Our North American Insurance segment increased gross premiums of $149 million or 8.4%. Both Northbridge and Crum & Forster had double-digit growth. Northbridge was up almost 14% in Canadian dollars, driven by high customer retentions and strong growth in new business. While Crum & Forster premium grew 12%, driven again by its Accident and Health business.

Finance premiums were flat year-over-year due to the competitive nature of the workers' compensation market. The premium of our international operations was up the most of all segments on a percentage basis, increasing 12% in the first quarter versus the first quarter 2022. Growth was strong at Fairfax Asia, up 36%, driven by Singapore Re and Pacific Insurance. We also saw double-digit growth at Fairfax Brazil, Polish Re and [Technical Difficulty].

The international operations growth was muted in U.S. dollar terms by the strengthening of the U.S. dollar against most currencies year-over-year. On closing of our acquisition of an additional 46% of Gulf Insurance, we will begin consolidating their results, adding an approximately $2.7 billion in premium annually to our international business. Over time, we believe our international operations will be a significant source of growth, driven by underpenetrated insurance markets and strong local economies.

Our companies continue to grow into favorable market conditions, although that growth has been slowing. While we see rate increases reducing in some lines, public D&O and cyber, for example, overall rate levels remain attractive. With a very hard reinsurance market, especially for property business and other macro factors, we believe favorable market conditions will continue throughout 2023 or longer.

As previously mentioned, our combined ratio was 94% in the first quarter of 2023, producing underwriting profit of $314 million. The combined ratio included catastrophe losses of $192 million, adding 3.7 combined ratio points, about half of which was from the earthquake in Turkey. This compares to a combined ratio of 93.1% and catastrophe losses of 2.8 points in the first quarter of 2022. As our premium base has expanded significantly and with the benefits of diversification, we have been able to absorb significant catastrophe losses within the underwriting profit.

Our global insurers and reinsurers posted a combined ratio of 93.5%, led by Brit, who had a combined ratio of 90.8%, benefiting from low catastrophe losses and recent underwriting actions. Allied World had another strong quarter at 91.7% and Odyssey Group was at 96.4%, which included 10.4 points of catastrophe losses, incurring the majority of our Turkey earthquake losses.

North American insurers had a combined ratio of 94.1%, led by Northbridge, who had a great quarter at 91.1%, Crum & Forster continued to produce sub-95 combined ratios, at 94.7%, while Zenith had an elevated combined ratio posting at 99.3%, benefiting less than prior quarters from favorable reserve development.

Our international operations had a combined ratio for the quarter of 96.4%. Fairfax Asia had a very good quarter with a combined ratio of 92.9%. Our Latin American operations came in at 94.4%, despite some difficult economic conditions and our Eastern European operations were at 96.1%. Bryte in South Africa had a difficult start to the year with a combined ratio of 102.6% from elevated losses on their auto book and dealing with the higher cost of reinsurance. Bryte are taking the necessary underwriting actions to get back to profitability.

While not benefiting from the hard market experienced in North America, our international companies continue to perform very well while growing profitably. For the quarter, our insurance and reinsurance companies recorded favorable reserve development of $30 million or the benefit of 0.6 points on our combined ratio. This compared to $22 million or the benefit of 0.5 point in 2022. The prior year reserve movements tend to be much less in the first quarter given the extensive actuarial reserve reviews performed in the fourth quarter of 2022.

Our expense ratio continues to benefit with our earned premium volume outpacing expenses. Our overall underwriting expense ratio was 20 basis points lower year-over-year with the underwriting expense ratio decreasing at essentially all our insurance and reinsurance operations. We had a great start to the year on all fronts and expect that to continue throughout 2023. Our insurance and reinsurance operations have never been stronger, led by very strong management teams. The companies are very well positioned to capitalize on their opportunities in their respective markets.

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

Jennifer J. S. Allen
VP & CFO

Thank you, Peter. I'll begin my remarks with a few comments on the company's adoption of the new accounting standard for insurance contracts, IFRS 17. First, I would also like to express my gratitude to the teams involved at each of our global insurance and reinsurance operating companies where county, tax, actuarial, internal audit and IT teams collaborated to ensure this project was a success. Additionally, our auditors, PwC, external consultants and a particular special thank you to our small head office team who ensured this significant implementation was a resounding success. You should all be extremely proud of your accomplishments and, again, a huge thank you.

This is the first time we are reporting our financial results under the new IFRS 17 insurance contract standard. And accordingly, our comparative period had to be restated and presented under IFRS 17. Our Q1 2023 interim report, therefore, includes restated comparable reporting periods for our Q1 2022 consolidated statement of earnings, comprehensive income, cash flows and change in equity and the consolidated balance sheet as of December 31, 2022 and January 1, 2022. So all of the periods presented are on the same measurement basis now under IFRS 17.

We've included a reconciliation of the restated Q1 '22 comparative period consolidated statement of earnings and the restated consolidated balance sheets within those previously issued under IFRS 4, starting on Page 58 of our MD&A. I would like to provide a few comments on the benefits that the transition had on the company's common shareholder equity and book value per share at December 31, '22, which was disclosed on Page 36 and 59 of our Interim Report.

Looking at the cumulative benefit at December 31, 2022, for adopting IFRS 17, we reported an increase in our common shareholder equity of $2.4 billion, which was an increase in book value per share of approximately $105 to $762 a share. The $2.4 billion adjustment was principally comprised of the introduction of discounting net claim reserves that reflects your time value of money for a benefit of $4.7 billion. That was partially offset by a risk adjustment of $1.6 billion for the uncertainty related to the timing and the amount of cash flow that corresponded into a consolidated confidence level at December 31, '22 of 84% and a tax effect on those measurement changes and other adjustments like MCI for an aggregate of $0.7 billion.

I would like to refer you to Note 4 in the Interim Report for additional details on the primary yield curves that were used to discount the cash flows and more commentary on the risk adjustment. Now, turning to the first quarter of 2023, in our press release on Page 2 and our MD&A on Page 38, we've disclosed in a table the insurance service results under IFRS 17 for property and casualty insurance and reinsurance operations. where it's reconciled to underwriting profit. As Prem said, a key performance measure that will continue to be used by the company and more broadly in the property and casualty industry in which we operate to evaluate and manage the business.

The primary reconciling adjustments presented in those tables are, first, we adjust to include the other insurance expenses presented on the consolidated statement of earnings outside of insurance service results; and secondly, adjust for the effects of discounting and risk adjustment, which are presented in the insurance service expense and recoveries of insurance service expense lines in the consolidated statement of earnings. Our traditional measures of underwriting profit and combined ratios were on an undiscounted basis, as Peter -- as discussed by Peter. So let me comment on the impact of IFRS 17 on the quarter results.

The total effect of discounting and risk adjustment or an aggregate benefit of $310 million that was recognized in the consolidated statement of earnings in the first quarter of '23 within 2 financial statement lines. First was the benefit of discounting the loss and ceded loss on claims and change in risk adjustment that was recorded in the period for $473 million. That's included in your insurance service results and our consolidated statement of earnings. That was partially offset by the second component that's presented in a separate line in the consolidated statement of earnings in net finance expense for $163 million. And that $163 million was comprised of your interest accretion of $254 million, which is your unwinding of the effects of discounting on your previous net claims recognized during the higher rate environment in 2022, and that was partially offset by a benefit in our increase in the discount rates during the period of $90 million.

That compared to an aggregate benefit of $639 million reported in the first quarter of '22 that comprised the same components mentioned previously, which were namely the benefit of discounting recorded in the period for $220 million in your insurance service revenue -- insurance service results and net finance income of $419 million, that was a benefit of an increase in discount rates in the period of $458 million as a result of the change in the interest rate environment being more pronounced in the first quarter of

'22 compared to the first quarter of '23. That was partially offset by your interest accretion of $39 million relating to the unwind of the discount.

Please refer to Note 4 in our Interim Report for additional details on the discount rates applied in those respective periods. A few comments on our noninsurance companies. The operating income of the noninsurance company reporting segment decreased to an operating loss of $0.6 million in the first quarter of '23 compared to operating income of $27 million in the first quarter of '22. Excluding noncash charges and adjustments and an operating loss at revalue hospitality, of $74.7 million in aggregate reported in the first quarter 23.

Operating income for the noninsurance company increased by $47 million to $74.1 million and reflected increased operating income at Fairfax India as a result of higher share of profits of associates, principally from its equity accounted investment in Bangalore Airport and interest and dividend income at Fairfax India. Also, there was improvement in the other operating segment, where the adjusted operating income of $1.3 million compared to an operating loss of $19 million in the prior period and principally reflected higher business volumes at AGT.

Looking at our investment performance from our investments in associates in the first quarter, we reported very strong profits from our investment in associates with the share of profit of associates increasing to $334 million from $181 million in the comparative period. The increase reflected the company's increased share of profits from Eurobank, which contributed $94.6 million in the quarter compared to $31 million. EXCO Resources contributed $69 million compared to $38 million in the prior period, and Gulf Insurance was $28.7 million compared to $1.3 million in the prior year.

We also reported continued strong performance by Poseidon, which was formerly known as Atlas at $50 million compared to an even $50 million in the prior period. And also to note, there was no share of profit reported from Resolute as a result of our disposition of that investment on March 1, '23, whereas the first quarter '22 included $12 million our share of profit.

Few comments on the transactions. We didn't have any significant acquisition or divestitures that closed in the first quarter of '23, but I would like to highlight the following key transactions that closed subsequent to the quarter or anticipated to close in '23, with the impact not yet reflected in our book value per share. First was, on May 10, 2023, Brit completed the sale of Ambridge is managing general underwriter operations to Amynta Group. In the second quarter of '23, Brit will deconsolidate those assets and liabilities of Ambridge and is expected to record a pretax gain of approximately $255 million, and that's prior to ascribing any fair value to an additional receivables.

It's also anticipated in the second quarter of '23 that Brit will pay a special dividend of approximately $275 million to the holding company as a result of the net proceeds received from this sale. The second transaction was our announcement of acquiring the additional equity interest in Gulf Insurance. On April 19, 2023, we entered into an agreement to acquire all of the shares of golf insurance under the control of KIPCO and certain affiliates. That represents 46.3% of the equity in Gulf Insurance.

On closing of this transaction, which is expected to close in the second half of 2023, we anticipate we will consolidate the asset and liabilities in Gulf Insurance, increasing our equity interest from 43.7% to a controlling interest of 90%, and we expect to record a pretax gain of approximately $300 million, with changes in the company's carrying value of its equity accounted investment in Gulf Insurance up until the date of closing potentially impacting that pretax gain. In aggregate, the benefit of those 2 transactions anticipated to be booked during 2023 of the expected pretax gain of $555 million translates to a pretax book value per share benefit of approximately $24 a share yet to be recognized.

In closing, a few comments on our financial condition. The liquidity position of the company remains strong with our cash and investments at the holding company of just under $1 billion at March 31, 2023, with Brit paying a special dividend of approximately $275 million, that's not reflecting in our closing position at March 31 as the transaction closed subsequent to the quarter end.

Looking to our total debt and cap ratio and common shareholder equity, excluding the investments of our consolidated noninsurance companies, our total debt to total cap ratio was 22.9% at March 31, 2023, which is an improvement compared to the 23.7% at December 31, 2022, and -- with the improvement in the ratio, principally reflecting the strong net earnings reported in the quarter of $1.2 billion that included the underwriting profit on an undiscounted basis of $314 million, interest in dividend income of $382 million and share of profit of associates of $334 million.

The holding company has no significant holding company debt maturities until August 2024. And our common shareholder equity, it increased by $884 million in the quarter to $18.66 billion at March 31, 2023, and up from the $17.78 billion reported at December 31, 2022, and that reflected the net earnings of $1.25 billion. That was partially offset by our common and preferred dividends of $257 million and purchases we made in the quarter of 156,700 subordinate voting shares for cancellation for cash consideration of $100 million.

That concludes my remarks. I will now turn the call back over to Prem.

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

Question and Answer

Operator

[Operator Instructions] Our first question comes from Tom MacKinnon of BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Just quick questions here. Prem, did I hear you when you said -- correctly when you said you extended duration in your bond portfolio? I think it was pretty short before and you extended it up to about 2 to 3 years now. Is that a -- did you mention that? Or was there anything with respect to your bonds [Technical Difficulty]?

V. Prem Watsa
Founder, Chairman & CEO

Yes, I think we said 2.5 years.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And is that -- what portion -- is that the entire portfolio duration has moved from 1.6% to 2.5% then, is that what happened?

V. Prem Watsa
Founder, Chairman & CEO

[indiscernible] portfolio, right, it's only the bond portfolio. And the important point that is all on 80% of our bond portfolio is government treasuries mainly, but government wherever we operate, Canada -- Canadian governments and other countries. And only 14%, I think. we said was corporate, something like that. And that's all very short term that's coming due relatively soon. And what we have done, Tom, is because these are coming due in the next 3 months, 6 months, we like the rates in the first quarter. So we locked in 3.7% -- 3.75% for U.S. government treasuries for 3 years. So we locked it in ahead of the maturity. We are happy with 3.75, could go to 4.25%, 4.5%, I don't know. It could go to 2.5, 3.75 was good. We locked it in, and that's ahead of the maturities in the next 3 months, 6 months.

Operator

Our next question comes from Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

I had a couple of questions actually. First, you went through -- within the noninsurance subsidiaries in the other segment, Jen, could you go through again, the United, I guess, had a $74 million aggregate loss. And I was just -- you made some mention of it in your comments. I just wanted to make sure I understood what elements were comprising that total.

Jennifer J. S. Allen
VP & CFO

Yes. So, Mark, so in there, we adjusted for things like Grivalia Hospitality that was not in the prior reporting period, so it was on a comparable basis. And then, we had some other noncash charges within the other reporting segment that aggregated up to the $74 million.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. The second question that I had related to -- within the reinsurance segment, there's a small amount of adverse development, which is fairly unusual. So, I thought I ask why what gave rise to a small amount of adverse development there.

V. Prem Watsa
Founder, Chairman & CEO

Peter?

Peter S. Clarke
President & COO

Yes, sure. And really, what that related to is, if you remember, late in 2022, there was the Winter Storm Elliott, like great in the last couple of days of the year. And that's where, especially on the reinsurance side, we had some development just for late reported claims, so true IBNR. And some of that was offset by favorable development on Hurricane Ian, but that's with that small amount of development related to.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. That's kind of what I was thinking, but I just wanted to be double sure. A lot of others have reported the same thing. One last question. Just any update related to Go Digit and where things stand there?

Peter S. Clarke
President & COO

Yes. Go Digit Insurance, we are looking at -- they have said publicly that we're looking at the potential of going public, Mark, and they're in the process of going through that. They need some approvals from the Department of Insurance and the SEC of India is called SEBI. So they need all those approvals before they can look at going public. It's always subject to the market, of course.

Operator

Our next question is again from Tom MacKinnon.

Tom MacKinnon
BMO Capital Markets Equity Research

Great. Yes, Jen, I was just wondering, the things that really impact IFRS 17, the change in the risk adjustment, the unwind of the discount, the build of the discount and the change in the discount rate. So, if we kind of had a flat interest rate environment and pretty well steady state with respect to your growth. Would all of this noise be pretty minimal, like what kind of conditions would make this noise show up more to the positive or actually show up more to the negative?

Jennifer J. S. Allen
VP & CFO

Yes. Sure. It's a good question, Tom. So, the way I think if you're in a steady state, if your underlying net reserves from a risk profile duration does not change, then as you unwind your discounting that you don't have a change in your discount rate, it should really be offset and really don't see a huge impact. The other side of it is, your risk adjustment would be steady state, you would be releasing your risk adjustment on your old book, but you would also be setting up the same risk adjustment on your new book. So it's only when your book grows, so if your net reserve starts to grow, you'll start to get that net benefit through again, if it shrinks, it would be a negative impact to your total portfolio.

Tom MacKinnon
BMO Capital Markets Equity Research

And then on the change in the discount rate, is that just generally, if we have a flat interest rate environment, then we wouldn't get that noise as well, I assume.

Jennifer J. S. Allen
VP & CFO

Correct.

Peter S. Clarke
President & COO

Tom, 1 point that you should know is that we're generally saying we benefited to the tune of $2.4 billion net for the year 2022. We had a bond loss in '22 of about $1 billion. If we were maxed, we'd have a $2.4 billion loss, and you'd have had a discounting of $2.4 billion, and we wouldn't have had any benefit. The fact that we weren't matched, the fact that we had -- we didn't reach for yield and it was the reason why we benefited to the tune of $2.4 billion. That's a significant benefit. And I just wanted to put that in perspective for you.

Tom MacKinnon
BMO Capital Markets Equity Research

Are you more matched now, Prem, with 80% in government treasuries because...

V. Prem Watsa
Founder, Chairman & CEO

Yes, still not, Tom, because we are 2.5 years as, I think, Peter, our liabilities at least 4 years, right? 4 plus. And what we're thinking, Tom, is that we've got government securities, [indiscernible] have locked in close to 4% plus/minus for our bond portfolio in treasuries, like I said, 80% of the short-term corporates will mature. But when you have a recession, we don't know that there'll be a recession. But in the next 3 years, if you have a recession, if the spreads, which happened widened and I experience over a long period of time as when you have a recession, the spreads widen. And when the spreads widen, we think we'll go into very high-quality corporates, as I've said at the AGM, 3, 4, 5 years in a term as opposed to duration, and then lock in those rates, very high quality rates. And hopefully, we'll make some money perhaps on treasuries, but in respective, we locked those rates. And that could be pretty significant when the spread widens, but that's just speculating in terms of what's potentially possible.

Operator

Our next question comes from Ashwin Mudaliar of Edward Jones.

Ashwin Mudaliar
Edward D. Jones & Co., L.P.

Congrats on the continued strong performance. And looking ahead a year or 2, what would you have to see that caused you to pull back from insurance and send more to the holdco? And could this cause the additional cash that's going to be invested at the holdco level to generate more earnings per share when the insurance cycle eventually turns?

V. Prem Watsa
Founder, Chairman & CEO

Peter?

Peter S. Clarke
President & COO

Sure. I guess, first of all, just to say that, we -- as long as the margins are good and we're getting good rate at our insurance companies, we always want to grow. We want to grow into a hard market. We want to take advantage of that. And we have, for the past 3 years, growing gross premiums by about 18% per year for the last 3 years. So, we wouldn't cut back in a market like today. But over time, you're exactly right, that premiums will flatten out when rates start coming down, it's a cyclical market. And when that occurs, there will be significant dividend -- ability to dividend that money to the holding company. And then that gives us a lot of flexibility what to do with that.

Operator

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

Howard Flinker
Flinker & Co

I actually have 2 accounting questions. The first is, do I understand correctly that the forward purchase of your own stock is large to market in the income statement up or down and not just the equity account?

V. Prem Watsa
Founder, Chairman & CEO

That's correct, yes.

Howard Flinker
Flinker & Co

Okay. All right. And second, on Page 184 of the Annual Report, you described your increase in ownership of Allied, I think, from 71% to 82% for about $775 million. And you wrote down your retained earnings by, what is it, $228 million or something like that. Why would you have to write down your retained earnings when you increase your ownership?

V. Prem Watsa
Founder, Chairman & CEO

Yes. That's just the accounting works, Howard. But Jen, would you answer that? So whatever you buy the minority interest. So we had, I forget now exactly, at 25%, 30% of Allied World that was owned by 2 pension plans. We got -- maybe what did we buy? About 1/3 of it. About 10% of the 30 we bought that were tied back. And the way the accounting works, the minority interest is reduced, Howard. And that's how it is. Even though we think it's -- the company went from $3 billion, $3.5billion to $6 billion, we thought it was worth a lot more. But accounting is accounting. This IFRS 17 is a wonder that a lot of you will spend a lot of time trying to understand it. I don't want to add any more. We would never do something like this.

Howard Flinker
Flinker & Co

Okay. I'll circle back for my next question.

Operator

[Operator Instructions] Our next question comes from [Giovanni Dejalia], a private investor.

Unknown Attendee

Reading the annual report, I think you stated that you should keep 1 year normalized earnings at cash at the holdco level. And I was wondering given the growth in equity and in earnings, should we expect a higher level of cash going forward? And second, if I may, how much of cash and short-term investment is available for investment in equities going forward?

V. Prem Watsa
Founder, Chairman & CEO

Peter, do you want to take [indiscernible]?

Peter S. Clarke
President & COO

Yes, sure. No. For the better part of 10, 15 years, we've kept in excess of $1 billion in cash and marketable securities in the holding company. And we're constantly reviewing that. And as we said before, that cash is there is for our insurance companies. It's not for acquisitions, it's not for investments, and it's really for us to ensure that our companies -- insurance companies can grow when market conditions exist or if any problems exist. And that's exactly what we've done over the last 3 years. So, we haven't built that up because we've been using some to support the insurance operations.

I said a little earlier that I think when premiums flatten off, the companies will build excess capital, and then that dividend will flow back up to Fairfax, and we'll build that cash balance, exactly right. We're a bigger company now. We should -- the plan would be to hold a little bit more cash at the holding company.

Operator

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

Howard Flinker
Flinker & Co

This is a question of a bigger picture, Prem. The bond market has been favorable or had been favorable for about 40 years, let's say, 1980 to 2020 or maybe 2016. And it looks like we're headed into a period when the bond market didn't go the wrong way for a long period of time. And to add to that, we've seen some banking troubles. If the environment for interest rates changes, would it be beneficial for Fairfax to begin to decease your long-term debt or pay it off so that when the opportunities arise, when some firms -- finance companies have customers or businesses up for sale, you can take advantage. It's also defensive. So it's a kind of a big picture question. I want to know your thoughts, Prem.

V. Prem Watsa
Founder, Chairman & CEO

First of all, your comment is well taken. 40 years, the interest rates have been coming down. We're used to that. People have forgotten 40 years prior to that, rates went up. And so, you're exactly right how we could be. We don't know. We could be in an environment where inflation is going up and interest rates could go up also. And so, we just -- that's why we're keeping it for 3 years in the main. But in terms of our debt, we just think our debt is very -- we don't have any bank debt, we have bonds that we have issued. And the bonds are -- our debt to -- our capital debt to what the company is worth is still very small, we think. But I made the point that we never do this, but just -- because they're so decentralized, we can take 1 of our companies, a large company and sell it, repeat that tree. And so we don't think we'd look at buying back our debt [indiscernible].

Peter, you want to add to that?

Peter S. Clarke
President & COO

Yes. No, I think the way we look at our debt to total cap has been dropping nicely in the last number of years, and we're in the low-20s now. And as our equity base expands, that ratio will come down even further, that would give us excess capacity in an environment where we were looking to raise that. But we're comfortable where we are, and I think you'll see that ratio decrease as the equity base gets bigger. Our equity base, we are focused on our equity base going bigger. And I mentioned this operating income is $100 a share. That's like, you add 3 years to that. That's pretty significant, right? And they're focused on that becoming bigger.

Howard Flinker
Flinker & Co

Let me rephrase it. You answered it, [but that's a sense]. Let's think of the positive sense. We could probably guess reasonably that there'll be some companies either whose customers are going to be up for grabs or whose divisions are going to be up for grabs as the pressures on interest rates, maybe from credit, maybe not from inflation -- as the pressures from interest rates rise. Would it be advantageous to build up more cash now, so you're ready for something like that to happen?

V. Prem Watsa
Founder, Chairman & CEO

Well, yes. No, that's a good point. You just saw us buy a pretty big company without issuing any stock, this is the 1 in the Middle East, GIG, we paid for 46%. We paid $860 million. We structured it in a way that perhaps a lot of it will come from the company itself, dividends from the company. So this is what we've done in the past. But as Peter was saying, we're focused on our financial soundness always cash in the holding company, the bank lines, the things that you know. And then, we are focused on backing our insurance companies. But once those 2 things are there, we've shown even in the first quarter, we find back our stock. And we think our stock -- I've said that for some time, and our stock is still very cheap when you consider all the things that have happened and gone away. So, we won't buy our shares at the expense of our financial shoulders. We won't buy our stock at the expense of not backing our insurance companies. But after that, we'll be looking at buying our shares.

Operator

Our next question comes from [Josh Donald], a private investor.

Unknown Attendee

Are there any investment themes that you find interesting right now in terms of opportunities that our equity oriented?

V. Prem Watsa
Founder, Chairman & CEO

No, we look at the equity at all department partners and investment area that we look at [Weiburten] and launched and run our investment department investment growth. And so, we're looking at it all the time, and we never talked about the ones that they're going to buy because, of course, in a marketplace that doesn't make any sense, right? But yes, so we keep looking at opportunities all the time.

Any more questions, Christy?

Operator

[Operator Instructions]

V. Prem Watsa
Founder, Chairman & CEO

So there are no further questions, Christy. Thank you very much for all of you for joining us on this call, and thank you, Christy.

Operator
Thank you. At this time, this does conclude today's conference. You may disconnect at this time. Thank you for your participation.