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Hippo Holdings Inc. NYSE:HIPO

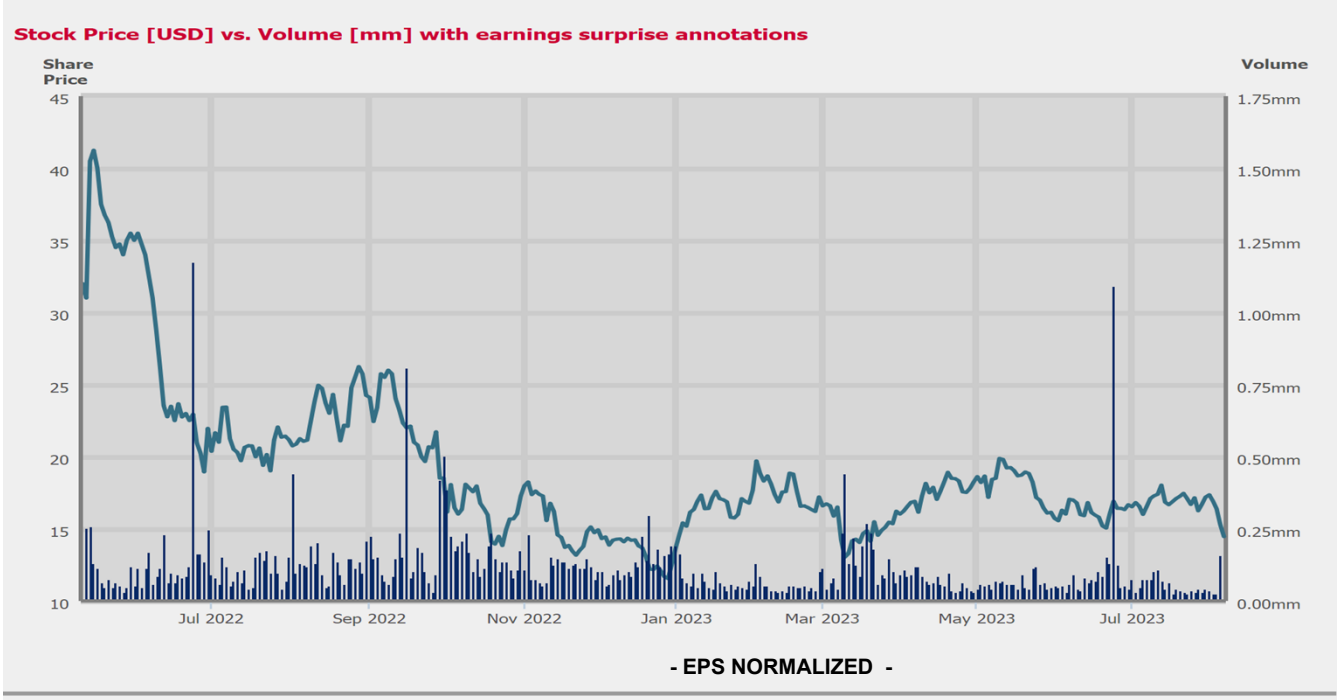
FQ2 2023 Earnings Call Transcripts

Tuesday, August 8, 2023 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(2.32)	NA	NA	(2.55)	(8.76)	NA
Revenue (mm)	32.27	NA	NA	47.40	206.00	NA

Currency: USD
Consensus as of Jul-12-2023 6:50 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	(2.75)	(3.28)	NM
FQ3 2022	(2.84)	(3.21)	NM
FQ4 2022	(2.63)	(2.70)	NM
FQ1 2023	(2.32)	(2.91)	NM

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Presentation

Operator

Hello, and welcome to the Hippo Holdings Q2 Earnings Call. My name is Alex. I'll be coordinating the call today. [Operator Instructions]

I'll now hand it over to your host, Cliff Gallant, VP of Investor Relations. Please go ahead.

Clifford Henry Gallant
Vice President of Investor Relations

Thank you, operator. Good morning, and thank you for joining Hippo's second quarter earnings conference call. Earlier, Hippo issued a shareholder letter announcing its results, which is available at investors.hippo.com.

Leading today's discussion will be Hippo Chief Executive Officer and President, Rick McCathron; and Chief Financial Officer, Stewart Ellis. Following management's prepared remarks, we will open up the call to questions.

Before we begin, we'd like to remind you that our discussion will contain predictions, expectations, forward-looking statements and other information about our business that are based on management's current expectations as of the date of this presentation. Forward-looking statements include, but are not limited to, Hippo's expectations or predictions of financial and business performance and conditions and competitive and industry outlook. Forward-looking statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from historical results and/or from our forecast, including those set forth in Hippo's Form 8-K filed today.

For more information, please refer to the risks, uncertainties and other factors discussed in Hippo's SEC filings, in particular, in the section entitled Risk Factors. All cautionary statements are applicable to any forward-looking statements we make whenever they appear. You should carefully consider the risks and uncertainties and other factors discussed in Hippo's SEC filings. Do not place undue reliance on forward-looking statements as Hippo is under no obligation and expressly disclaims any responsibility for updating, offering or otherwise revising any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

During this conference call, we will also refer to non-GAAP financial measures such as total generated premium and adjusted EBITDA. Our GAAP results and description of our non-GAAP financial measures with a full reconciliation to GAAP can be found in the second quarter 2023 shareholder letter, which has been furnished to the SEC and available on our website.

And with that, I'll turn the call over to Rick McCathron, our President and CEO.

Richard Lyn McCathron
President, CEO & Director

Good morning, everyone. At the beginning of this year, we talked about our 3 major segments for the first time, presenting our 2023 outlook for each. I'm encouraged by our progress against key metrics in all 3 segments during the quarter.

Growth in our total generated premium or TGP and revenue is exceeding expectations, and we're holding the line on our fixed costs. Unfortunately, catastrophic losses during Q2 overshadowed continued improvement in our core gross loss ratio. However, I want to be clear. We remain confident in our long-term vision and that we are on track to be adjusted EBITDA-positive by the end of 2024.

In our Services segment, we are ahead of plan on TGP and revenue while remaining within our fixed cost budget. At a time when insurer appointments are tough to come by, our First Connect platform is using its technology to facilitate business between agents and carriers. The Carrier Store, which launched in October, already supports over 80 carriers connecting them to thousands of independent agents. In Q2 '23, we facilitated 14,800 agency appointments, up over 30% from Q1 2023, and up over 400% from the prior year quarter.

We also continue to see strength in our Hippo Agency, where we sell insurance to consumers on behalf of third-party carriers. Our builder business has continued to grow quickly, and our year-over-year premium retention for third-party products rose to 110%, up from 98% in the prior year quarter.

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And finally, with our Hippo Home Care Services, we are helping a growing number of homeowners improve their home's health. Our recently launched Home Health App crossed 10,000 monthly active users, and the team continues to make great progress on an exciting road map of products and services designed to help homeowners better protect and maintain their homes.

When we first introduced our Insurance-as-a-Service segment, we characterized its earnings stream as steady, growing and diversifying. In a quarter of significant earnings volatility for many insurers, we believe our results validate this characterization. Adjusted operating income for the second quarter was $5 million as Spinnaker's diverse portfolio of short-tail risks and expense discipline continued to deliver adjusted operating income growth. We're also well ahead of plan for top line growth. TGP is up 112% versus the prior year quarter as we expanded capacity with existing partners. Spinnaker's experienced team, strong financial rating and the ability to leverage Hippo's tech platform continues to attract potential new partners as well.

Our Hippo Home Insurance Program segment continued to exceed our targets for growth and diversification during the quarter. And our core gross loss ratio of 62% year-to-date is comfortably within the 60% to 67% target we communicated at the beginning of the year. Unfortunately, the broader U.S. homeowners insurance industry experienced significant catastrophe losses in the quarter. Leading insurers have already reported billions of dollars of losses stemming from hail and severe convective storm events in the Central U.S.

These events in Texas and Colorado also impacted Hippo, leading to significantly higher PCS-Cat losses than in normal years and a Hippo home insurance program gross loss ratio of 178%. Hippo is responding with rate hikes, increased deductibles for wind and hail perils, slowing policy growth and non-renewing policies in certain regions. We remain committed to achieving underwriting profitability.

For a nimble tech company like Hippo, these challenges and the resulting market dislocation are an opportunity. Our technology allows us to make the necessary changes faster than traditional insurers, while also continuing to grow in less Cat-exposed geographies, further adding to our diversity. For example, in Texas, where our hail losses were severe this quarter, we've already responded with filings to raise rates and deductibles where needed. As always, these filings are subject to regulatory approval.

Excluding the effects of severe weather events during the quarter, our Q2 '23 KPIs for each of our segments were ahead of the expectations we shared at the beginning of the year. And the actions we are taking in response to this weather should help reduce the volatility of our future financial results and give us even greater confidence in our path and time line to profitability.

The long history of insurance is one of innovation and change. Some opportunities arrived suddenly after major loss events like Hurricane Andrew. Some came after legislative actions like the passage of Prop 103 in California. Some came when the innovative spirits of great companies led change in the distribution and pricing of products like auto insurance. We believe the U.S. homeowners market is in the early days of a challenging period, but we see the opportunity for a tech-enabled company like Hippo to be the solution for many U.S. homeowners.

Thank you. And now I'd like to turn the call over to Stewart to review our Q2 financial results in more detail.

Stewart Andrew Ellis
CFO & Treasurer

Thanks, Rick. Overall, we've made great progress this year and moving towards our goal of turning adjusted EBITDA-positive by late 2024. Our KPIs for growth, operating expense management and core gross loss ratio are all ahead of expectations. Unfortunately, our results were heavily impacted by a series of major hail events in Texas and Colorado, but we are taking decisive actions to reduce our exposure to these risks and to further improve our ability to hit our long-term profitability goals.

On a consolidated basis, our Q2 TGP and revenue growth is ahead of plan, up 56% and 66% year-over-year, respectively, to $318 million and $48 million. Q2 operating expenses, excluding loss and loss adjustment expense, grew more slowly than revenue, rising to $76 million from $71 million in the prior year quarter and declining year-over-year as a percentage of revenue to 159% from 248% a year ago. We've been experimenting with the use of AI tools to further improve the efficiency of our operations and are excited about the potential for more gains here.

Because of the outsized catastrophic weather losses, our net loss attributable to Hippo was $108 million or $4.61 per share for the quarter compared to a loss of $74 million or $3.25 per share in the prior year quarter. And our Q2 '23 adjusted EBITDA loss was $88 million, an increase from $56 million a year ago.

Despite the higher-than-expected weather losses, our balance sheet remains strong with cash and investments at the end of the quarter of $565 million. Statutory surplus of our insurance company, Spinnaker, increased during the quarter to $173 million.

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I'll now provide a bit more detail on our Q2 results at a segment level. In our Services segment, we continue to attract new customers and grow in all 3 of our businesses. Services TGP was up 35% year-over-year during the quarter, ahead of our full year guidance of 30% for 2023. The year-over-year premium retention rate for third-party products at our Hippo Agency continued to strengthen, coming in at 110%, up from 98% in the second quarter of 2022. While we're still in the early days of development of our Hippo Home Care offering, we're seeing some early successes driving user engagement, a leading indicator of adoption and retention, growing the number of unique users completing recommended maintenance actions in the Hippo Home App by over 60% from March to June. Our adjusted operating loss in this segment was $10 million, an increase of 17% compared to a loss of $8 million in the prior year quarter, but improved from $11 million in the first quarter of 2023 as we continued to invest in our platforms to provide differentiated services for our customers across all our businesses.

Turning to our Insurance-as-a-Service segment, TGP growth accelerated from a year ago, growing 112% year-over-year due to a combination of new programs and growth at existing programs. Revenue grew 103% versus the prior year quarter. Both TGP and revenue results are tracking well ahead of our guidance. Adjusted operating income was $5 million in this segment compared to a loss of $1 million in the prior year quarter due to the increase in revenue I just mentioned, expense discipline and continued program diversification.

In the Hippo Home Insurance segment, TGP was up 10% versus the prior year quarter, with continued growth across all channels and over 90% of new TGP fitting our target Generation Better customer profile. We made progress on geographic diversity as well, with 71% of new TGP coming from outside of our 2 largest states, Texas and California. Revenue grew 39% year-over-year, faster than TGP, driven by growth in net earned premium, which grew 100% year-over-year to $12 million versus $6 million in the prior year quarter as our 2023 reinsurance treaty becomes a more significant driver of our financials. The segment's adjusted operating expenses, excluding loss and loss adjustment expense, declined to $28 million or 124% of revenue from $37 million or 226% of revenue in the year ago quarter.

As Rick mentioned earlier, the most significant driver of our Q2 financial result was our loss and loss adjustment expense. Encouragingly, our core gross loss ratio was 63% in the quarter and 62% year-to-date, comfortably in line with our guidance of 60% to 67%. This was an improvement of 12 percentage points versus the prior year quarter and reflects the substantial progress our team has made on pricing and underwriting improvements.

Unfortunately, we suffered outsized catastrophic weather losses along with the rest of the industry that overshadowed these improvements. Most of the losses were caused by 5 major wind and hail events in Colorado and Texas, and most of the claims will be linked to our 2022 reinsurance treaty. The Q2 impact of these PCS-Cat losses was $110 million on a gross basis and $51 million on a net basis, and we expect an additional $13 million to $15 million over the remainder of the year due to their impact on the loss participation features embedded in our reinsurance treaties.

While it would be easy to simply chalk this up to bad luck, we are planning to take decisive actions to reduce our future exposure to wind and hail with the explicit goal of reducing the volatility of our financial results going forward. These actions include increasing deductibles for wind and hail perils, selective nonrenewal policies in high-risk regions and increasing the rates we charge for Cat-exposed properties across our portfolio.

Our goal and expectation is to have a homeowners insurance program that consistently produces underwriting profit, and we believe being more aggressive in these areas during the rest of this year will help accelerate our path to achieving this goal. In addition to these actions, we took steps during the quarter to reduce our dependence on the reinsurance market and the costs associated with not retaining the risk we underwrite on our own balance sheet.

During the quarter, our Spinnaker Insurance Company subsidiary announced the successful sponsorship of our first Cat bond. The $110 million Cat bond was upsized 10% from our initial target size, reflecting strong investor confidence in Hippo's approach. The bond provides multiyear catastrophe protection to our Hippo Home Insurance Program business written through Spinnaker.

I'd like to close by updating our 2023 guidance to reflect the performance and learnings from the first half of the year. We are increasing our 2023 TGP guidance to $1.1 billion as strong growth in our Services and Insurance-as-a-Service segment will likely only be partially offset by TGP declines at our Hippo Home Insurance Program segment over the second half of 2023 as we take aggressive action to reduce our catastrophic exposure.

We expect revenue to be up 49% for 2023, an increase from our previous guidance and stronger-than-expected growth in Services and Insurance-as-a-Service is moderated by a flat outlook for our Hippo homeowners program segment. For the Hippo homeowners program segment, based on encouraging progress made during the first half of the year, we expect our full year core gross loss ratio to be at the low end of our previous 60% to 67% guidance. Reflecting the significantly higher PCS-defined Cat losses in the first half of

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the year, we now expect our full year PCS-Cat gross loss ratio to fall within the 45% to 50% range, up from our previous guidance of 28%.

Turning to adjusted EBITDA. We now expect our adjusted EBITDA loss to be in the range of $208 million to $218 million versus previous guidance of $147 million, reflecting the impact of weather in Q2, partially offset by better-than-expected results in other segments. Finally, we would like to reiterate our expectation of turning adjusted EBITDA-positive by the end of 2024.
And now, we'd be happy to take your questions. Operator?

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Question and Answer

Operator

[Operator Instructions] Our first question for today comes from Yaron Kinar of Jefferies.

Richard Lyn McCathron
President, CEO & Director

I just want to give you a heads up that we have Chris Donahue with us, our Chief Underwriting Officer.

Yaron Joseph Kinar
Jefferies LLC, Research Division

So my first question just goes back to the Cat, so obviously a large Cat loss this quarter. Can you maybe try and quantify it in terms of kind of what level of hail event or a set of events was this for the company? Was it 1 in 10, 1 in 20, 1 in 50 and so on?

Christopher Donahue
GM of Managing General Agent & Chief Underwriting Officer

Right now, we're still evaluating and still developing. But I think in the second quarter, we've seen very much similar to the industry, we experienced 22 Cat events. Over 80% of those losses came from 5 individual events. The 2 largest ones happened in DFW, Texas and the other suburban Denver, Colorado. Both of those events happened with large hails of over 1.5 inches in diameter. The losses were incurred in both our -- each of the 3 book of business and also in our builder [stuff].

Over the last couple of years, we have been reducing exposure to these losses through -- as Stewart and Rick both mentioned, through reducing exposure, increasing hail deductibles, increasing rates aggressively. We are looking, though, to aggressively accelerate those efforts in wake of these events. These are clearly not long-tail events. These are events that are happening quite often within the industry. So we recognize the need to take aggressive action quickly. As Rick had mentioned, we've already made 2 filings in Texas to address rate and increasing hail deductibles there. We're continuing to review the rest of the book for opportunities to continue to mitigate against the volatility within the book.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it. And actually, you [answered] my second question, but [just to confirm]. So the actions or the responses that you laid out ultimately are pretty much the actions that you've been talking about for the last several quarters. So is it just a matter of scale or is it degree of aggressiveness in which you're pursuing, you have the rate increases and the deductible changes and so on?

Richard Lyn McCathron
President, CEO & Director

Yes, Yaron, it's Rick. What we've told everybody since we went public is that our sort of portfolio improvements and diversification, pricing, underwriting actions was a multiyear process. And we've been in -- we're sort of in the middle of that multiyear process, and we said that last quarter. The difference, I think, is what we and rest of the industry is recognizing is some of these Cat events are happening so frequently that some of them are almost becoming uninsurable. And so what we've done is, we said, look, we've missed our number on our [Cat] for the quarter. We need to make sure that we mitigate that type of thing happening when we get into hail season next year.

So the short answer is, we are getting more aggressive in pricing, more aggressive in location and diversification, more aggressive in underwriting actions to really try to isolate the book as much as possible from weather-related events. One advantage that Hippo has is even if we are not interested in selling a Hippo-manufactured product, we have an agency. And that agency has partnered with over 80 carriers to sell a combination of product lines, including E&S and some DIC coverage choices for customers. So we still can provide customers with a holistic home protection opportunity even if it means selling a third-party insurance portion of that protection in an area that we believe is overly Cat-exposed. So short answer is more aggressive.

Yaron Joseph Kinar
Jefferies LLC, Research Division

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Got it. And hence, we see maybe the lower guidance for Hippo Home Insurance Program top line and then the increase in Services and IaaS?

Richard Lyn McCathron
President, CEO & Director

That's right. And the Services and insurance-as-a-Service, absolutely shining spots for us as a company. And we also recognize that when we started this journey more than 6 years ago, we didn't have the full view that we have now of what a Generation Better customer looks like, who's more likely to partner with us and our home care offerings. And now we know what those customers look like. As Stewart mentioned, over 90% of our new business is coming from those types of customers. And so there is the sort of legacy book that we've been working on. We're just going to work more aggressively on it, which means that, that will likely be flat to down on the Hippo insurance program where the others will continue their upward trend.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it. And then one last one, and then I'll go back into the queue. Can you maybe explain the mechanics why the last quarter would drive future losses as opposed to showing up in this quarter's losses?

Stewart Andrew Ellis
CFO & Treasurer

Sure. Yaron, it's Stewart. Happy to take that one. So when we think about the mechanics of the reinsurance treaty, we do our best to match the recognition of revenue and costs from a timing standpoint. So we'll earn out the corridor over the remainder of the treaty. And if the weather is better than planned in Q3 and Q4, then that amount -- that's better-than-planned amount will positively affect the corridors in those periods. But the corridors and the loss participation features generally are tied to our earned premium over the course of the treaty year.

Operator

Our next question comes from Matt Carletti of JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Maybe just sticking with the Cat for a moment. Stewart, I think you had mentioned that these are going to impact the '22 treaty. Can you give us a little bit of color on how the outcome might be different, either whether it repeat again next year or it would have impacted the '23 treaty? Just kind of what the differences might be with the change in rate insurance structure.

Stewart Andrew Ellis
CFO & Treasurer

Sure. So I think that the primary difference in the reinsurance structure between '22 and '23 is that we're retaining more risk than the '23 treaty than we were on the '22 treaty. That said, I think really the biggest -- the reason why we made a point to note that is the 2022 treaty will earn out and be over at the end of the 2023 calendar year. The 2023 treaty relates to policies that are written in 2023 and will have an impact on both the 2023 and 2024 calendar year. So we'll see some impact in the loss participation features in the second half of this year because these properties are on the 2022 treaty. The impact in 2023 -- sorry, in 2024 calendar year will be significantly smaller because most of the properties are not insured on the '23 treaty.

Richard Lyn McCathron
President, CEO & Director

Yes. One thing that I'd just like to add is that, I just want to make sure we're very clear. All of the efforts that we're taking in the Hippo insurance program segment are to do everything we can within regulatory constraints to try to avoid this thing from happening again. So I think it's very important to recognize that our portfolio will not look the same next year as it does this year and in an accelerated fashion.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Perfect. And then just one kind of follow-up. There's been a lot of news in the market with -- regarding Vesttoo. I just want to ask if particularly through Spinnaker, if you guys have any exposure there or what it might be.

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Richard Lyn McCathron
President, CEO & Director

Yes. It's a really good question, and I'm hearing lots of fronting carriers and program carriers struggling with this unfortunate circumstance. We have no exposure to what's going on with Vesttoo. I think it shows that the high bar we have in the Spinnaker portfolio is additive to the core, it's not something where we're prepared to take outside risk in. It's something that we think diversifies the total exposure, diversifies our consolidated gross loss ratio, adds premium and fee-based revenue to the parent. And as a result, we have a very high underwriting threshold, not just on the types of programs -- excuse me, not just the type of products that these programs are offering, but also the programs themselves and the support that they have from reinsurance markets.

Operator

Our next question comes from Tommy McJoynt of KBW.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

What percentage of your retained premium and risk is Texas now? And do you have an estimate for kind of what the Texas-specific state loss ratio was in the quarter? And then when you talk about going out and pursuing rate increases, any way you could quantify how much you think you need?

Christopher Donahue
GM of Managing General Agent & Chief Underwriting Officer

Texas, at this point from an exposure standpoint is about 1/4 of the book. It is decreasing as time has gone on and has over the last 2 years. We'll continue to manage that. And it's not just amount of exposure, it's also the deductibles that we apply on it, and those have doubled over the last year as well. So the exposure is about 1/4, it's down from over half of the book a couple of years ago. So a significant trend, that's a function of both Texas decreasing in exposure over the last 2 years, but also the growth in the book in other regions as well.

Richard Lyn McCathron
President, CEO & Director

Yes. Just -- Tommy, just to reiterate, this -- it was always part of our plan to reduce the exposure that we have in Texas as a percentage of the whole. That's what Chris and his team have been working on for the last couple of years. As Chris mentioned, deductibles in Texas have doubled and our exposure has been reduced 60%. So we're well on the path. The path is just going to accelerate.

Stewart Andrew Ellis
CFO & Treasurer

And Tommy, this is Stewart. I think one more thing to note. It's a bit hard to characterize risk retention or percent of retained risk at a state level because the actual percentage of risk that we retain varies by the nature of the event. So we are more exposed to these small Cat events than we would be to a very large Cat that would benefit from the protection of the XoL tower. So it's a little bit tough to characterize it by state, but we can look at it kind of in aggregate when you think about the peril. It's probably a better way to think about risk retention.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got it. And then my next question is, as we look out to 2024, what is your sort of normalized expectations for a Cat load, either on a percentage basis or like a dollar amount that you think is a good base case?

Stewart Andrew Ellis
CFO & Treasurer

Yes. It's a good question. I think the answer to that question is something we'll talk about at the end of this year, beginning of next year, when we give guidance, because the Cat load is going to depend on how successful we are at reducing the exposure to some of these perils. And as both Rick and Chris have said, that is a top priority for us as a company. It doesn't do us any good or anyone to have this kind of volatility in the financials. And so we're looking to -- just to reduce the exposure with the express goal of lowering the volatility and, therefore, the Cat load in 2024.

Thomas Patrick McJoynt-Griffith

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Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And then just my last question. The Cat bond that you guys issued over the quarter, just mechanically, how does that kind of flow through the financials -- like the kind of financial impact of that?

Stewart Andrew Ellis
CFO & Treasurer

It will just be recognized like reinsurance. The Spinnaker is the sponsor. But the way the mechanics work is, we've signed a reinsurance deal with an XoL-style deal with the entity that issued the bonds. So it's just a layer in our overall XoL tower and should -- will be accounted for, that way.

Operator

Our next question comes from Alex Scott of Goldman Sachs.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had for you is just on one of the comments that was made in the shareholder letter. I noticed you said that you believe the U.S. homeowners market's in the early days of a challenging period. I just wanted to see if you could extrapolate on that and sort of unpack what you mean by that, what you're seeing. I mean, I think some of the comments you've already made on the call, I appreciate, sort of answered some of it, but I just wanted to see if you could elaborate there.

Richard Lyn McCathron
President, CEO & Director

Yes. No, happy to, Alex. It's Rick. I think there's a couple of major things that are obvious. I think climate change is real. Weather events are becoming more frequent in areas that maybe weren't having them as frequently, size of hail in places like Colorado have increased. So the industry is going to have to figure out a solution for things like hail and wildfire exposure. And it's really going to take a combination of consumers kicking in, the industry kicking in, the regulators kicking in and frankly, some of the people that do things like build roofs.

We need to make sure that homes are more hardened against some of these exposures. You have a hail loss now, the only entity that's getting hurt by the hail loss are the insurance companies because pricing of roofs have gone up dramatically. We need to make sure that we all have sort of a dog in this hunt and make sure that we all participate in a solution, and it's going to be a creative one. We've already got several things that we're working on to contribute to it. But I think that's the biggest issue is the climate change.

I think inflation trends continue. I think the use of data is becoming more pronounced. I think AI and underwriting is going to become a larger portion of what the industry does. There's already some companies doing this sort of thing. I think it's sort of early stage. And as I said in the letter, there were companies that solved some of these things, either after Andrew or after Prop 103 in California, they came up with innovative solutions. I think homeowners insurance carriers are going to have to do the same thing.

Our view has always been to protect the joy of homeownership, and we think home insurance is a portion of that. We think we're doing a lot of other proactive steps and measures with our home care offering. And we think we're primed, we think our tech is quick to react to a changing world. This is one of the reasons for the last 2 years we've been oversubscribed in our reinsurance treaties. So we think we're well positioned, but the industry has challenges as it relates to property exposure.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. The other thing I wanted to ask you about is just the pricing action and so forth and what you're communicating about gross written premiums being more flat. Could you talk about how you can handle that in terms of trying to leverage the agency channel? I mean is there an opportunity to still retain some of these people even if your price isn't the best and you can sort of still retain it as total generated premium? Or do you expect retention to actually come down for the firm overall? How are you thinking through all that?

Richard Lyn McCathron
President, CEO & Director

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Yes. I think you nailed it. And I think that's the advantage that we have at Hippo is we have an agency. And so if we are going to exit a risk or our risk becomes -- or our policy and pricing becomes less attractive to a particular customer, we have other options that we can provide that customer. So our goal is to retain every customer, even if it's not a manufactured Hippo home insurance policy and continue to offer them a home services and home care to go along with agency services and placing their home with a third-party carrier, cross-selling auto, umbrella [pad], whatever they may need to meet the needs of the customer.

We think home care actually improves the attritional losses of an exposure because of the proactive nature of what we do with home care. And so yes, Generation Better customers, we absolutely want to retain as many of them as we can, whether it's in the agency or through our Hippo insurance program. But we also recognize that there has to be solutions on the weather events. And so you might have a Generation Better customer in an area that you're massively over-concentrated with weather, and that's not acceptable to us. And so we need to balance the two, and we think we found the right balance. We just need to execute.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. If I could ask one more follow-up. I'd just be interested in the placed premiums written. I think it went up from around [42% to 73%]. Can you help us think through how much of that is agency growth versus MGA? And could you talk at all about how the MGA business is performing and if there's anything from like catastrophes that we need to think about and like the trajectory of commissions over the next 12 months?

Stewart Andrew Ellis
CFO & Treasurer

Yes, I think I can take a stab at that one. This is Stewart. I think there are a lot of questions embedded in there. And so if this doesn't answer your question, happy to try to clarify or to follow up offline. But yes, I think the mixture of written premium and placed premium has to do with a couple of things. First, anything that we would sell through our agency as a third-party product is going to be in the placed premium category. Secondly, as we've talked about in previous quarters, we have started, within the MGA, writing business on third-party carriers instead of Spinnaker. And so that would also shift the mix within the MGA from written premium to placed premium.

But I think that the specifics there are -- within the MGA are going to be, going forward, a lot more related to the nature of the risk that we are writing and whether it makes sense for us to put that risk on the program itself or to try to place that with a third party as opposed to trying to think about which balance sheet we're writing it on because whether that we write it on a Spinnaker balance sheet or whether we write it on one of our partner balance sheets, if it's written by the MGA or if it's underwritten by the MGA and placed by the MGA or written by the MGA, that's ultimately going to be on the reinsurance and ultimately, the risk of that policy will be something that we're going to be participating in, in some way or the other.

So I think the bigger driver of the economics -- while the mix of written and placed is indicative of shifting more to selling third-party products, the bigger driver of the economics over the next 6 months and then into 2024 is going to be what we've talked about earlier on this call, which is the aggressive action we're taking to reduce the exposure to catastrophic events and to try to reduce the overall range in which the outcomes due to weather might fall.

Richard Lyn McCathron
President, CEO & Director

Yes. This is Rick. I want to just add a couple of things because I know it can easily be confused because we use the term third-party carriers in a couple of different ways. So to be clear, we're essentially talking about, there are third-party programs we sell or third-party products we sell. And then there are third-party balance sheets we use to sell the Hippo home product. So you need to sort of bifurcate those two when you're thinking about written versus placed.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

Understood. So the business that's going to third-party carriers through an MGA and so forth, I mean there's nothing notable in terms of loss sharing that we need to think about sort of coming in to the commissions line over the next 12 to 24 months?

Stewart Andrew Ellis
CFO & Treasurer

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Yes, nothing beyond what we've already talked about. I think the loss participation features that are in the reinsurance treaties are almost -- for the most part, within our primary homeowners product, are carrier-neutral, meaning we would end up experiencing the economics in roughly the same way, regardless of whether we write that policy on Spinnaker's balance sheet or on a partner balance sheet. Obviously, if it's a policy that's being written by our agency where a third-party carrier is doing the underwriting, where we're just serving as an agent as opposed to an MGA, then we don't have any exposure to risk at all.

And when we think about how to demonstrate that in our financial results, the best way to think about that is if it's premium that's coming through our Services segment, we are acting as an agent and don't have exposure to risk. If it's coming through our Hippo home insurance program segment, we're acting as the underwriter and would therefore have some exposure to risk depending on the amount we retain in the treaty. And then in the middle of the Insurance-as-a-Service, we have tail exposure and a little bit of risk participation, but mostly, as you can see in the results for this quarter, the results are not as volatile with respect to weather or other events.

Operator

Our next question comes from Pablo Singzon from JPMorgan.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

The first question I had is about the Services business. I was wondering if you're seeing a reduced appetite from third-party personal lines underwriters impacting your ability to grow in that business.

Richard Lyn McCathron
President, CEO & Director

Yes, I think -- Pablo, it's Rick. I think the -- and we sort of mentioned this in the shareholder letter. The industry -- anybody that writes property insurance right now in a traditional way is tending to back off. But we are also seeing either newer players or E&S players step in to fill that gap a bit. And our strategy is to have a combination of product offerings through third parties that is both sort of more or less vanilla-type exposures versus Cat-exposed exposures. So it's harder to get carriers to partner with in a hard market, but they're there. And I do think we're going to see more and more E&S players step into areas that have been problematic over the last several years.

Stewart Andrew Ellis
CFO & Treasurer

Yes. And I'll just add one thing. I think as we make progress in our Hippo Home Care business, we are going to be an attractive place for carriers who are looking for incremental business to turn because our customers will be proactively protecting and maintaining their home. They will be putting the work in to reduce the risk where possible. And those are exactly the kind of customers that we at Hippo would want on our book, but if we have too much concentration in a given area, we think they are the kinds of customers that any carrier would want on theirs. And as we all know, home insurance is not an optional product. There will be someone, whether it's other carriers, E&S providers or states who are stepping up to take the risk. And we think that the relationships we have and the work that our customers are doing to protect their homes will be an attractive policy.

Richard Lyn McCathron
President, CEO & Director

Yes. And I think that's a great add that Stewart made. Also, remember, there are markets of last resort that we act as an agent for. So whether it's the California FAIR plan, whether it's TWIA, whether it's citizens, there are solutions that we can sell in our agency that are either run or backed by the states.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Yes. Understood. And then shifting to Spinnaker. I was hoping you could provide more color on the growth there. I was looking for you to distinguish between new programs and existing programs and how the growth is split between that, and I suppose also how growth is driven across different lines of business.

Richard Lyn McCathron
President, CEO & Director

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I couldn't catch the -- I heard the first part of the question but not the last part of the question. You trailed off there at the end.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Yes. Sorry, just looking for more color and growth at Spinnaker, and I was hoping to get some color on growth between new and programs that you're just renewing, right, so new programs that you brought in this year, that's sort of one split. And then the second split I was hoping to get would be just growth by lines of business.

Richard Lyn McCathron
President, CEO & Director

Yes, Pablo, I'm going to answer part of your question and then ask Stewart to jump in and answer part of it as well. When you're trying to differentiate between new programs and existing programs, you also have to add a third category, which is an existing program that is moving from one fronting carrier to another fronting carrier. So most of the growth that we've had at Spinnaker in our Insurance-as-a-Service segment is either existing programs that we've had for a long time or programs that have left one particular fronting carrier and are coming over to Spinnaker. So these are oftentimes well-established programs, it's oftentimes because their previous frontier didn't have the capital or capacity to support continued growth of those programs. And frankly, I think it's prudent for MGAs to diversify their exposure and not put all their eggs in a single fronting carrier's basket. So those are the majority of the two. We do add new programs that are brand-new programs, but I'd like to reemphasize the high bar we have and our belief that, that program is doing the right things to produce a positive underwriting result.

Stewart Andrew Ellis
CFO & Treasurer

Yes. And then Pablo, the second part of your question, we don't generally break out, on a quarterly basis, the business line specific premium at Spinnaker. That information is available in the [indiscernible] filing on sort of on a less frequent basis. But because the business model at Spinnaker is sort of more program-dependent as apposed to line-dependent, and we're primarily a fee-based business, the line of business is less of a driver of the economics than the size of the premium from any given program.

Richard Lyn McCathron
President, CEO & Director

Yes. The last thing, Pablo, that I would add is that, rest assured, when we are looking at what programs we want to add to Spinnaker, we're looking for those that diversify the overall exposure at the holding company level, not ones that add to the overall exposure. So we generally are looking for things that give us more ballast and reduce volatility on a quarter-by-quarter basis as opposed to those that are more layered on or additive to that volatility.

Pablo Augusto Serrano Singzon
JPMorgan Chase & Co, Research Division

Yes. That makes sense. And then the last one for me, just on the Hippo homeowners program. As you think about the actions you're taking, so nonrenewing, price increases, changing terms, which of those do you think will be the most impactful over the next year or two? And I suppose, the bigger question is what [Indiscernible] the kind of events that you're reunderwriting the book fast enough to accommodate the higher reinsurance retention you're picking up?

Christopher Donahue
GM of Managing General Agent & Chief Underwriting Officer

Yes. So we are -- the most efficient way to reduce exposure is obviously moving it from our balance sheet. And as Rick mentioned, there's ways that we can do that, nonrenewals. One -- another is actively remarking [Technical Difficulty] we're retaining those customers within the Hippo brand. The -- but there are regulatory restrictions within the market and there are restrictions about what we can do, and we want to make sure that we're compliant. So we're looking at all other options, including deductible increases, which can be very efficient in reducing exposure as well. And then there are other ways in terms of rate increases that we make sure that the business that we retain is adequately priced and we build some volatility protection and just an adequate margin on that business as well. So anything we do is going to be a combination of all of those things. It's going to be heavily driven by each market circumstance in each state, whether it's regulatory or market environment. But it will be a state-by-state, yes.

Richard Lyn McCathron
President, CEO & Director

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Yes. Pablo, one thing I would add too is, when we're successful at achieving the reduced volatility and limiting our exposure to weather, that actually also improves the reinsurance economics of the business. Our PMLs go down, which is -- reinsurance treaties are a driver of our financial success. So there's that added benefit of what will our 2024 treaty look like with reduced PMLs.

Operator

Our next question is a follow-up question from Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

So one -- I think in the shareholders letter, you provide the gross prior year development of about $19 million favorable. Can you give that to us on a net basis?

Stewart Andrew Ellis
CFO & Treasurer

That's -- Yaron, this is Stewart. It's $2.5 million on a net basis.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Is that favorable $2.5 million?

Stewart Andrew Ellis
CFO & Treasurer

Yes. Sorry, favorable. And Yaron, I think on a gross basis, it's more like $19 million of prior accident year favorable development, not $12 million.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. I thought I said $19 million, apologies -- sorry, go ahead.

Stewart Andrew Ellis
CFO & Treasurer

No, no, I just want to emphasize that that's favorable in both [Technical Difficulty].

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it. Got it. And then maybe moving away from the quarter and circling back on another question that was asked earlier. So if we look at reinsurance arrangements, if we look past thus, [Stew], do you -- does Hippo or does Spinnaker use reinsurers with LOCs as collateral? And if so, how does the company verify the quality of the collateral?

Stewart Andrew Ellis
CFO & Treasurer

Yes. We -- this was kind of tied to the best 2 comment that I answered before. So just to be clear, we have no exposure to [Technical Difficulty] in there. We also -- I'm not aware of any collateralized reinsurance market we use for third-party programs. But if we have any, we absolutely verify funds. We don't just take the letter of credit and say we're good to go. We actually verify funds on a regular basis. Back to the point of when we bought Spinnaker, it was a thinly capitalized fronting carrier and the DNA of Spinnaker is very much one of protecting the capital in that entity, and that DNA has not changed.

Operator

Our next question is a follow-up question from Alex Scott of Goldman Sachs.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

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The question I had is just on the cash balance on your balance sheet and thinking through some of the challenges you outlined a little bit more Cats this year, some additional repricing, maybe that's being communicated as necessary since your Investor Day, et cetera. How does that change the trajectory of the cash balance itself? I think at the Investor Day, you projected that it would go down and trough out at $400 million. Certainly, there's some [necessary] amount of cash in Spinnaker, et cetera, that's needed for the business. So the required capital, something less than $400 million at the Investor Day. Just given that, that is like maybe a close enough buffer that people have to keep an eye on it, has that trajectory changed materially as a result of Cats and sort of the new view of where pricing needs to go and so forth?

Stewart Andrew Ellis
CFO & Treasurer

Yes. Thanks for the question, Alex. This is Stewart. I think the short answer is the end result has not changed very much, but let me walk you through it. So at the Investor Day, we said, yes, we would turn cash flow positive with around $400 million in cash. We then, subsequent to the Investor Day, announced a $50 million stock buyback program. So if you -- we execute that program over the next couple of years, the trough balance would be around $350 million. In the second quarter, when severe weather started resulting in greater losses than what we had, had in our plan, we stopped repurchasing shares as part of that program. We're trying to be somewhat conservative there because we want to maintain [execution] cash cushion. We haven't paused the program completely, but we only bought 85,000 -- a few -- a little over 85,000 shares in the quarter, which is less than a couple of million dollars.

So we have that as a lever that we can pull if it looks like we want to sort of stay within the $350 million of cash trough that we had talked about before. And the net impact of these captives kind of in the same ballpark as the size of the repurchase program. So we will continue to have the ability to buy shares in the market, but we are going to be more cautious there because of the higher Cat events this quarter. We still are committed to being able to turn cash flow positive with the $350 million minimum.

Operator

We currently have no further questions for today, so I'll hand back to Rick McCathron for any further remarks.

Richard Lyn McCathron
President, CEO & Director

Well, we appreciate each of you joining us and asking the thoughtful questions. We look forward to executing our plan and talking again next quarter. Have a great day.

Operator
Thank you for joining today's call. You may now disconnect your lines.

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