Participants

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Management Discussion Section

Operator

Good afternoon,
and thank you for attending today's Hippo Second Quarter 2022 Earnings Call. My name is Daniel, and I'll be your mo derator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. [Operator Instructions]

I would now like to pass the conference over to our host, Cliff Gallant of Hippo. Cliff, please proceed.

Clifford Gallant
Vice President-Investor Relations & Corporate Development, Hippo Holdings, Inc.

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

Leading today's discussions will be Hippo's Chief Executive Officer
and President, Rick McCathron; Executive Chairman and Founder, Assaf Wand; and Chief Financial Officer, Stewart Ellis. Following management's prepared remarks, we will open up the call for questions.

Before we begin, I'd like to remind you that our discussion will contain predictions, expectations, forward-looking statements and other information about our business that is 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 will 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. All cautionary statements that we make during this call 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 r eliance on forward-looking statements as Hippo is under no obligation, and expressly disclaims any responsibility for updating, altering 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 2022 shareholder letter, which has been furnished to the SEC and available on our website.

And with that, I'll turn the call over to Assaf Wand, Founder and Executive Chairman of Hippo.

Assaf Wand
Co-Founder & Executive Chairman, Hippo Holdings, Inc.
Thanks, Cliff. Before we dig into the details of another solid quarter of delivering on what we said we'd do, I wanted to take this opportunity to thank Hippo's customers, employees, supporters and investors for my time as the CEO of the company.

When I founded Hippo in 2015, I had a vision of what we could do for homeowners and how we could build a great company, and I think we're well on our way of achieving that vision. As Executive Chairman and Hippo's largest individual investor, I continue to be involved on an ongoing basis and dedicated to the continued success of Hippo.

Rick and I have worked side-by-side for six years to build Hippo into what it is today. As we look to the next phase of Hippo's development, Rick's operational background makes him ideal to take the lead in the CEO role. As an entrepreneur at heart, I will be focused on finding more strategic opportunities for Hippo on our long-term growth and on advancing our mission of protecting the joy of homeownership.

Nothing gives me more pride and confidence than Rick's promotion to the CEO role and knowing that Hippo is in amazing hands.

Thank you. And now, Rick.

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Thanks, Assaf, for your continued involvement and support.

Now on to the quarter. Hippo is making steady progress towards our goals of profitability and delivering on our mission of protecting the joy of homeownership. In Q2, we delivered another quarter of strong TGP growth, revenue growth, and perhaps most importantly, significant loss ratio improvement. Our total generated premium was up 29% over the prior-year quarter. We are growing throughout our geographies as we establish our presence and grow share in the states launched over the last 18 months.

During Q2, we announced the entry into the major states of New York, Massachusetts and North Carolina. While these states will take some time to be meaningful contributors, our confidence is high in our ability to succeed in these new markets. Growth through our builder and partnership channels remained robust. We recently announced the creation of the AmeriSave Insurance Agency, powered by Hippo's proprietary technology. We offer our partners a quality insurance experience for their customers, creating a circular win-win-win cycle between our partners, their customers and Hippo.

Our Q2 gross loss ratio of 78% marks yet another leap of improvement from the prior-year quarter. Our technology platform, which leverages advanced analytics and data, played a central role in this improvement. In addition, our increased geographic diversification, the early earning out of re-underwritten and re-rated policies, favorable reserve development, and relatively good weather all contributed to this improvement. We expect additional improvements as we continue to refine our pricing and risk management, claims handling and cost efficiency.

We are getting better at identifying our target customers and winning their business. As this attractive and appropriately priced business grows and as the other loss ratio improvement efforts gain momentum, we expect our loss ratio to continue to converge with those of our large national peers. Given our strong performance in the first half of 2022, we are pleased to be able to offer improved full year 2022 guidance for gross loss ratio, bringing it down from our previous guidance of under 100% to under 90%, representing a 48-percentage point improvement from a 138% in 2021.

As we discussed in our first quarter 2022 letter, we've taken substantial re-underwriting and repricing actions across our book of business as we sharpen and focus on achieving our loss ratio objectives. On average, these actions have resulted in double-

digit rate increases, although some of our most attractive risks have seen rate reductions. We are also pleased to report that our premium retention remains high at 87%, even though we are non-renewing policies that are not aligned with our customer segment goals.

As we all return to our busy lives in a post-pandemic world, helping our customers to manage and protect their biggest asset, their homes, is more important than ever. We recently launched our Hippo Home Care mobile experience, which includes a Home Health Assessment done either in-person or conducted through our mobile app, with a Hippo Home Care expert who can provide home care tips and create a personalized preventative maintenance plan for each Hippo customer. As we like to say, the best claims experience is to help our customers prevent losses from ever occurring.

You may have begun seeing more of us online and on TV. We recently launched our targeted brand campaign, Feel the House Power, which focuses on our differentiated product and customer experience. A recent Hippo survey found that 87% of homeowners surveyed experience anxiety and dread about home maintenance and worry about what could go wrong next. Hippo empowers homeowners by giving them the confidence and control they need to stand up to whatever homeownership throws at them. We're betting on our customers, not against them.

Finally, we're excited for our Investor Day on September 6 in New York City. Led by myself, Assaf and Stewart, several of our key leadership will present on topics including underwriting, technology and product development, focusing on how Hippo differentiates itself.
We will also welcome extensive Q&A. If you would like to join us in person or if you would like to submit a question, please email us at investors@hippo.com. We are looking forward to sharing our plans for furthering our mission of protecting the joy of homeownership as well as our financial outlook.

Thank you. And now I hand it off to Stewart.

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Thanks, Rick. The first half of 2022 has gone well for Hippo. Our gross loss ratio improved substantially versus the prior-year period with indications of more to come. Our TGP growth rate remained strong despite significant underwriting action, and our confidence in our financial position is higher than ever.

We ended the first half of the year with cash and investments of $732 million and believe we can achieve profitability without raising additional capital. TGP was $204 million in Q2, up 29% from $159 million in the prior-year quarter, and our Hippo homeowners' premium retention rate of 87% remains high. As we have worked to accelerate our time line to profitability, we have become more selective in our underwriting. This has shifted the mix of customers toward our most attractive segments, but has slowed our TGP growth slightly.

Moving forward, if potential policies are on the margin between a profitable and unprofitable expected loss ratio, we will continue to lean toward profitability when choosing whether to write the business on our Hippo program. As a result, we are slightly reducing our TGP guidance from $800 million to $820 million offered previously to $790 million to $810 million. We plan to go into more detail about our future growth plans at our Investor Day in September.

Geographic expansion has been a key driver of our growth as we develop a balanced portfolio of risk exposure. With the recent additions of New York, Massachusetts and North Carolina, we are now live in 40 states. We estimate that our current geographic footprint covers approximately 94% of the US population, but our share of the overall homeowners' insurance market is still less than 1%, indicating ample room for share gains and long-term growth, even while optimizing for a profitable underwriting result.

Revenue in Q2 was $28.7 million, up 37% over the prior-year quarter. As a reminder, revenue includes net premiums earned, growing and steady streams of ceding, MGA, and agency commissions paid to us by other carriers and reinsurers, as well as service and fee income. Also, we're exp

anding our third-party program administrator business at Spinnaker and taking advantage of higher low-risk yields on our cash balance to grow our investment income.

The volume impact of our increased focus on near-term profitability and the increased cost of certain kinds of reinsurance, which directly reduce our earned premium, have resulted in a short-term headwind on the earned premium portion of our revenue. As a result, we expect the risk-bearing premium we will earn to come in a little lower than our initial forecast in favor of lower dollar but nonrisk-bearing and higher margin commission revenue. Therefore, we are lowering our guidance for 2022 revenue to $119 million to $121 million.

Our gross loss ratio in Q2 was 78%, an 83-percentage point improvement over Q2 last year. Q2 is typically when our customers face adverse weather events, particularly hail, but our increasingly balanced risk exposures have helped to blunt the overall impact of this kind of weather on our results. Given the progress we are making in this area, we are comfortable offering improved guidance for full year gross loss ratio and now believe we will be under 90% for the year, down from our previous guidance of 100%.

Breaking down the loss ratio a bit, losses from PCS catastrophic events represented 22 points of our Q2 loss ratio, net of 12 points of prior period favorable development on PCS events, driven largely by hail and storms in the Central Plains States and northern Texas. I'd like to highlight the benefits of our recent focus on geographic expansion here. A year ago, we were more overweight in this geography and would have likely been impacted to a greater degree by this same weather. Q2 also benefited from 10 percentage points of favorable loss reserve development on attritional losses from prior years.

Another key driver of our loss ratio improvement is our continued improvements to our rate adequacy and accuracy through the filing and implementation of segmented rate changes. An additional 5 states and 11 product rate changes went live in the quarter, bringing our year-to-date changes to 15 states and 34 products. On a premium basis, over 80% of the book has seen a rate change filed, approved and pushed live in 2022. The speed and nimbleness with which we have been able to effect these changes and the substantial improvements to our loss ratio as a result is one example of the power of our technology platform.

We're often asked by investors about the challenge of inflation. We would highlight that the very core of one of our value propositions to our customers, the prevention of losses, helps avoid this inflation and supply chain problem. Second, our pricing matches price to real risk, which implicitly considers inflation factors. And finally, we rerun our underwriting and rebuilding cost models automatically at each renewal, incorporating all accumulated data since the last renewal, including the impact of inflation on estimated rebuilding cost, which allows our premiums to be resilient to these factors without additional rate filings. We look forward to sharing more about our underwriting and technological strength at our Investor Day in September.

Sales and marketing expenses for the quarter decreased to $19.4 million from $22.2 million in the prior-year quarter. As we focused on the execution of rate adjustments in the first half of 2022, we were conservative with our marketing spend. In the second half of the year, and now that many of the planned rate actions are live, we expect to lean more into customer acquisition. We recently launched a new brand campaign to better inform our target customers about our unique value proposition.

Technology and development expenses for the quarter increased to $16.5 million from $7.5 million in the prior-year quarter, in part reflecting recent investments in our claims processing to achieve efficiency and improve service capabilities as well as additional stock-based compensation.

General and administrative expenses increased to $18.2 million from $8.8 million in the prior-year quarter, reflecting additional stock-based compensation and the higher cost of being a public company.

Our cash and investments at the end of the quarter were $732 million. While our investment strategy remains very conservative with high liquidity, we now hold $454 million in investments, including US T-bills and high-rated corporate bonds to capture the benefit of increasing short-term yields. We expect investment income to contribute more towards our bottom line in future years.

Net loss attributable to Hippo was $73.5 million or $0.13 per share in Q2 compared to a net loss of $84.5 million in th e prior-year quarter, and adjusted EBITDA was a loss of $55.8 million versus a loss of $42.3 million in the prior-year quarter.

To summarize our updated guidance for 2022, we expect a gross loss ratio of below 90%, improved from our previou s guidance of 100%. We're lowering our estimate for full year total generated premium to between $790 million and $810 million, down slightly from between $800 million and $820 million. And we're reducing our revenue estimate to a range of between $119 million and $121 million, down from $140 million to $142 million.

Thank you very much for listening. We would now be happy to take your questions. In addition to posing questions thr ough the operator, you can also email questions to investors@hippo.com. Thank you. [Operator Instructions]

Question And Answer Section

Operator
The first question comes from Matt Carletti of JMP. Please proceed.

Matthew J. Carletti
Analyst, JMP Securities LLC
Hey. Thanks. Good afternoon. My first question...

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Hi, Matt.

Matthew J. Carletti
Analyst, JMP Securities LLC
...centers around the loss ratio. Hi. How are you? First question is around the loss ratio. Just, I mean, great to see the ongoing improvement. It seems clear from your guidance that it's exceeding your expectations, despite what is a pret ty inflationary environment and we're seeing pressures the opposite direction at other companies.

Stewart, I think you hit on a couple of pieces there, but I was hoping you could maybe peel the onion back a little bit on kind of what's been allowing you to do that. And also, maybe if you can get more granular, I'd be curious if, are you seeing a big difference in frequency just avoiding losses because of some of the smart home stuff or kind of break out frequency versus severity, if you can?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah. Thanks, Matt. Thanks for the question. I think you're reading it accurately. We are ahead of the expectations. We are at the beginning of the year. And I think that comes from a variety of things that we've been doi ng. This is an area that's been, as you know, and as we've said in prior quarters, a large focus of the company's effort s. And I think we would break down those efforts into a few big buckets.

I think we've been leaning hard into trying to grow more – smarter growth, basically, more focused on better segments. I think we've put a lot of energy into figuring out how to find the kinds of customers who resonate with our value proposition. And we're beginning to see some success in tar geted messaging and marketing to people who will resonate with our technology-forward approach. And I think that, that has resulted in a mixed shift to the sort of better fit in terms of customers for H ippo's program.

Another way our technology platform has supported the efforts that we've been making in the first half of this year on loss ratio is the high throughput way that we can take pricing action and rating action and also underwr iting actions. And we're doing that in a very granular and targeted way. We've also made improvements to claims effic iency and cost efficiency more generally by being proactive about working with our partners in those areas.

And then I think finally, something we've tried to discuss
in prior calls, but we're really starting to see the benefits of that this year is the areas that we've been able to grow an d to expand our geographic diversity have really benefited us from a volatility standpoint with respect to the loss ratio. We launched in New York, Massachusetts, North Carolina. These states, while still small today, represent big growth opportunities for us. But as we diversify out of North Texas, we are seeing benefits to the volatility that comes from w eather events like hail.

And I think, despite the environment, as you mentioned, it's getting harder and others are seeing headwinds, we feel l ike we're – everyone is swimming upstream against those trends, but we feel like we've been able to
actually accelerate our progress despite that and just swim faster in the right direction. And I also think there's more t o come. And we mentioned earlier that the large number of rate actions and
filings that we've taken, those have only partially earned their way into the financial results and we expect to see bene fits of those in future quarters as well. So we're optimistic about the future and feel like we're making progress.

And Rick, if you have anything add.

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Yeah. Hey, Matt. Your question around smart home, I think there's two different components to consider, the types of customers that resonate with our value proposition,
the ones that we are targeting, we've made great progress in identifying those and convincing them that our value pro position is what they need. Those are customers that are generally positively selected, that really participate either in our smart homes programs, people that want a partner in that particular area.

The second component of that is specific segments of our business like our builder channel. These are positively sele cted new construction properties, and we have various distribution techniques that allow us to get more of those positi vely selected exposures. So in our effort to really make sure that we are avoiding claims for the benefit of
our customers, that is very much where we are focusing our growth and growth targets.

Matthew J. Carletti
Analyst, JMP Securities LLC
That's very helpful. Thank you. And one, I think, quick follow-up, if I could. I'm looking at page
19 of the investor letter, the geographic diversification. And it looks like a slightly bigger piece of the pie this quarter c ame from California and Texas. And I know one quarter doesn't
make a trend, but just be curious if you could help me through why that might be versus last year?

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Yeah. I think one thing to keep in mind is Texas specifically –
and Texas is a massively large state that you can fit a half dozen other states within and
it has very different exposures
to catastrophe. So in areas where we were overly saturated and where we felt like we had inferior pricing, we've [indiscernible] (00:23:44)
purposes shutdown those particular markets. Areas that we were not overly saturated and where we believe we have pricing adequacy, those are areas that actually within a given geography provide better diversification across differen t weather patterns.

So we are very confident that we are growing in all of our geographies. And we are very focused on making sure we don't have overconcentration
and oversaturation. Similar types of things in places like California. The exposures in Northern California are very diff erent than the exposures in Southern California. So we look at geographical diversification, not just at a state-by-state basis but also in a more granular way, including different exposures that might exist in those specific granular te rritories.

Matthew J. Carletti
Analyst, JMP Securities LLC
That makes perfect sense. Thanks, Rick, for the color.

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Thanks, Matt.

Operator, are you there?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Operator, we'll take the next question.

Operator
Next question comes from Michael Phillips of Morgan Stanley. Please proceed.

Michael W. Phillips
Analyst, Morgan Stanley & Co. LLC
Hey. Thanks. Good evening, everybody. Guys, I hope you could touch on comments about being more selective with underwriting. So obviously, that's the impact on your guidance down modestly for the full year versus an uptick in marketing spend for the back half of the year and leaning more into customer acquisition, which certainly what I would think would have an uptick in your top line. So sounds like the first one is winning over guidance versus what you might get from a lift from more marketing spend and customer acquisition. So if you could just kind of talk about those two nuances?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah. Thanks, Mike. Happy to talk more about that question. So I think we mentioned it last quarter, but this is a kind of continuing trend. We mentioned we have a large number of rate and underwriting filings that we're rolling out over the course of the country. And some of those take time, and so we were cautious in the first half of the year while we were rolling out those things and while they were being filed and approved. And at this point, we do feel like we are better-positioned to write profitable business in a broader area of the country.

And I think if you look at the growth last quarter and the guidance for the year, it was always going to be the case that we would see accelerating growth in the second half of the year. That has not changed. We still are expecting growth to pick up in the second year – or the second half of the year as we lean in to the broader geographies in the US, where we feel like we have rate adequacy.

In terms of guidance, I would think of that more as a refinement of guidance. If you look from midpoint-to-midpoint, it's just a 1% reduction. And it's – we felt like it made sense to refine that slightly, simply because we are erring on the side and we want to send the message to the broader investment community that we're erring on the side of the profitability. Even at the new guidance, we're still expecting 30% year-over-year growth.

And so, what's going to get us there? I think, we're going to continue to build on the progress we've made in targeting those high-value segments with our new brand campaigns, which we're planning to roll out in the second half of the year a bit more broadly. Branding and brand spend as I'm sure you know, does take a little bit longer to show a positive return on investment as compared to more quantitative marketing spends. We do have higher confidence in our pricing, so we're spending more on the quantitative side as well to bring customers to the website.

And as Rick mentioned, we are seeing a lot of success in the builder and other positively selected channels from a risk standpoint, and those we expect to continue to be the fastest growing. And also now that we're live in New York, in Massachusetts, in North Carolina, we're starting to see positive traction there. Certainly early stage, but we feel optimistic. And so, I think about the guidance as a signal more on the lines of – on the margin, we're going to focus on making sure we get to cash flow positivity. But it's still – we still feel like growth will be a positive feature for our story.

Michael W. Phillips

Analyst, Morgan Stanley & Co. LLC
Okay. Thank you, Stewart. And I guess also in line with your comments about kind of those policies that might be on t he margin and kind of like how you decide whether they get on to
Hippo paper or not from here. What does that imply for, I guess, near-
term growth and commission income? And whether
it's because of that or not, just general comments about how commission income might kind of change over the next 12 months?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah. I think, in areas where we don't feel like we're adequately priced or we're not the best fit or the best policy for a customer, we do have the ability through our agency to
sell other peoples' products, and that is something that we've been doing more of. And so, I expect that, that will be a feature of our business and our customer experience going forward. So we've mentioned over the past few quarters that we do see service fee and [ph] nonrisk-bearing
(00:29:39) commission income to be parts of our future growth story, and we expect
that we will see that become a larger part of our financials. I don't think there's anything that's changed, and it is some thing that we're excited about.

Michael W. Phillips
Analyst, Morgan Stanley & Co. LLC
Okay. Great. Thank you, Stewart. Appreciate it.

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah. Thanks, Mike.

Operator
Thank you. The next question comes from the line of Alex Scott of Goldman Sachs. Please proceed.

Alex Scott
Analyst, Goldman Sachs & Co. LLC
Hi. Good afternoon. The first question I had was just to see if you could elaborate a bit on the comment in the shareh older letter around achieving profitability without raising additional capital. Can you just talk a little bit about what that l ooks like, over what timeframe we should think about that?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah. Thanks, Alex. Happy to take that and then if Rick wants to add anything, happy to have
him do so. I think we've been
talking a lot on this call about the fact that our loss ratio results in Q2 represent another quarter of consistent progress . And I think we're also sharpening our focus internally on cost containment and operating efficiencies. And we're doin g that and trying to balance that with continuing to make strategic investments in important growth areas for our busin ess, like the builder and the partner channel that have the potential to deliver positively selected risk.

I think based on our expectations, we think Q3, the quarter we're in right now, will be our peak loss quarter from an ad justed EBITDA standpoint. And as I said earlier, like we do expect to reach bottom line profitability
without the need to raise additional capital. I think that's a topic that is probably best covered in a bit
more detail than we can on a call like this. And so, that's going to be
the focus of my presentation at the Investor Day that we're planning on September 6. So I'd invite everyone who is int erested to join us there, and we'll have an opportunity to talk more about our growth plans and also the mechanisms by which we see convergence to profitability.

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Yeah. Alex, I just want to
make sure we're very clear on this point. Getting to cash flow positive with the cash on hand is our number one priorit y as a company, and we intend to do so with a cushion. So as Stewart said, we'll have a lot more detail in our Investo r Day. But just to be clear, that is something that we will achieve.

Alex Scott
Analyst, Goldman Sachs & Co. LLC
Got it. That was helpful. Next one I had for you all
is just on the net loss ratio in your reinsurance agreements. I mean, as you mentioned, we've seen a lot of gross loss ratio improvement over the first half of 2021, and like the net loss ratio, though, has continued to go up pretty substantially. So at what point does the gross loss ratio begin translating more to the net? I mean, do you have to get to the end of the year and restructure insurance contracts? Are those things that can be restructured annually? Or is there some sort of longer time line [indiscernible] (00:33:05) when they come up or how do I think about all of that?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah. I'm happy to take the first part of that question. And then, Rick, please feel free to add. I think here, you've captured, I think what's going on, which is that the terms of our annual reinsurance agreements, as we said, are somewhat lagging related
to the performance of the underlying book, which is best represented by the gross loss ratio. And our 2022 reinsurance treaty, as we said in prior periods, has some loss participation features that are the result of our loss ratio in 2021, which is abnormally high for reasons related to both Winter Storm Uri as well as one of
the most severe hail seasons on record.

Part of the driver of the improvement in loss ratio is the geographic diversity that we've been able to
put into the book through the growth. And yet, we still have some loss participation features that are impacting our net loss ratio because we're experiencing losses, but we're not actually able to
recognize the earned premium. And so, in addition to those loss participation, we also have seen, like the rest
of the industry, higher actuarial costs which reduce that net earned premium. And so, the percentage is quite volatile because we're looking at a very small denominator of earned premium that you can see in the financials.

But
it's one of the things that the annual portion of our reinsurance treaty. We are exploring ways with our reinsurance partners to develop structures that are more cost effective going into 2023. We're optimistic about our ability to translate the much improved loss ratio we're delivering in 2022 into better reinsurance terms in the next year.

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Yeah. Just to add a few points to that. Reinsurance is generally backwards looking on the performance of the book and how the book is exposed to weather. So historically, we have not had a great loss ratio, and net loss ratio or the business for both was very much exposed to catastrophic weather. So as an example, our 2022 treaty will impact us for 2022 and part of 2023 because they are calendar year treaties. And we are working with our reinsurance partners to structure the 2023 treaty in one that recognizes both the improvement in our loss ratio and the reduction of exposure to catastrophic weather.

So it's lagging, but we're excited that we have strong reinsurance partners. They have a very deep look into the trends and what we're doing. As a reminder, we were oversubscribed last year even with a poor historical loss ratio. So I think you're going to see continued improvement in that as time goes on and as we continue to take the actions that produce a much more favorable gross loss ratio.

Alex Scott
Analyst, Goldman Sachs & Co. LLC
Got it. Thanks.

Operator
Thank you. The next question comes from Yaron Kinar of Jefferies. Please proceed.

Hey. Good afternoon. This is Andrew Anderson on for Yaron. You had mentioned some of
your most attractive risks are seeing rate reductions. Can you
help us think about and maybe quantify what percentage of policies are seeing these rate reductions?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.

Yeah. I think on average we're seeing rate increase across the book. And I don't know if we can get into quantifying t he specific numbers of policies that are in the best risk segments. But our goal generally is to try to match price of the policy and the rate of the policy to the underlying risk. And so, when you look at portfolio as a whole, it's a mid-teens rate increase.

But there are places where we're getting more precise and where we want to be able
– if we're overpriced for our best segments, we're not getting those customers. And so, by being able to lower the pric e selectively where we're overpriced in certain areas, that helps us with both growth and also loss ratio because thes e are the best customers that we can bring in. So that's an area where maybe being more refined and more precise with our pricing, we can generate benefits on both sides of that equation.

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Yeah. [ph] Andrew
(00:38:19), I think it's really important to note that disproportionate losses are generally created by fewer customers. And as we continue to refine our segmentation, the customers we're going after, the distribution channels like builders that are more positively selected, I think what we're finding is there are customers that we have and additional custo mers out there that should not subsidize the sort of the greater world of customers.

So as time goes on, we will write more and more, and we have, by the way, written more and more sort of A and A-plus customers that they [ph] shouldn't
(00:39:00) deserve a lower price, and we are finding those in our existing book and charging them the appropriate pri ce.

Thanks. And I guess lower top line guidance on the one hand and better loss ratio on the other. Do you see your earnings power or EPS going better than planned for this year?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
I think we'll talk more about bottom line guidance probably at our Investor Day for 2022. I don't know that we can talk to that today. But it is part of our plan to discuss in September.

Thanks. And maybe one more, if I could sneak it in. Certainly been very active filing rates. What has kind of been the reception from regulators both in California and more broadly?

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Yeah. Based on my 30-
year history of this, I am finding regulators generally to be more receptive because of both the inflationary trends gen erally and also recognizing that weather has been more pronounced across the board. And I don't think I have found –
I don't think I remember a time when regulators have been more active partners with insurance companies to maintai n a healthy insurance environment. And frankly, we have seen the regulators being very receptive to rate changes and increases even in places like California.

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah. And I'll just add, the rates that we're talking about, these rate changes are not only filed but they have either ap proved by regulators and also live within our system. So these are more than just asks of regulators. These are the th ings that have already made it through the process. And so, just want to make sure that, that's clear.

Great. Thanks for the answers.

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Thanks, [ph] Andrew (00:41:04).

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah, absolutely.

Operator
Thank you. The next question comes from the line of Tommy McJoynt of KBW. Please proceed.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.
Hey, guys. Good evening. Thanks for taking my questions. Could you remind us how big the builder channel is for you? And are there any metrics that you can share around attach rates or penetration and then the latest loss ratio performances there?
And then on that same topic, has the slowdown in new home sales or the expected slowdown at least had any impact on the results in the quarter or your growth outlook?

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Yeah. Hey, Tommy. I do think it's relevant. There is a slowdown of builders – a slowdown of housing starts. Although keep in mind that we are relatively new in this effort, and we are improving and gaining. And Stewart can talk to some specifics around attach rates. We think that our penetration within the new construction channel is just sort of at the tip of the iceberg. We don't think that the slowdown will impact us. And in fact, we are actually seeing pretty significant increases in those specific channels. So we don't see any negative impacts at all with fewer housing starts.

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah.
And Tommy, on some of the metrics. One of the things that we can do that other providers that are out there have a more difficult time doing is to integrate fairly deeply into the builders' own customer experience. Lennar is a good case study on this, and I think we've talked about it publicly before. When we took over the business
at Lennar and partnered with them, the attach rates were far lower for their customers than they are now.

And so, we've been able to drive meaningful increases in attach rates at Lennar for their own homebuyers because we have been able to improve that experience. And I think the attach rates now
are north of 70%. And I think they've even talked about that publicly.

In terms of size, I would say right now, the builder channel is around 10% of the Hippo program, specifically, Hippo homeowners program, and that percentage is growing. It's one of the fastest channels that
we have in terms of growth, and we're excited about the future there. We've signed a new – with regards
to new builders, we launched with [indiscernible] (00:43:58). In the quarter, we now have, I think, [ph] 4 of 20 (00:44:02) builders, and we're excited about the prospects of that business.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.
Thanks for those metrics there. And then how many markets do you have the Hippo Home Care available in?
And in those markets, what are the actual take-
up rates by your customers that actually result in some sort of preventative maintenance plan being given to them?

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Yeah. Good question, Tommy. I think there's a couple
of things to consider. I think our Hippo Home Care, how we utilize IoT devices through our partnerships has a wide range of what I would consider capabilities. So when you look at customers that participate in Hippo Home Care generally and have Hippo Smart Home program, that number attach rate is north of 70%.

When we talk about total home care, that is sort of the next iteration of that capabilities and it's in its infancy stage. So I don't think you're seeing meaningful amounts showing on our particular economics related to that. We've had very good progress, very good relationships. We've done

[indiscernible] (00:45:19) maintenance with that particular customer. So I think you're seeing a ton of opportunity in th at particular area, and we will talk more about that on our Investor Day.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.
Thank you.

Operator
Thank you. There are currently no additional questions registered at this time. [Operator Instructions]

Richard L. McCathron
Chief Executive Officer, President & Director, Hippo Holdings, Inc.
Okay. Well, if there are no further questions, we very much appreciate your time this quarter, and we look forward to speaking to you next quarter and in September at our Investor Day.

Operator
That concludes the conference call. Thank you for your participation. You may now disconnect your lines.