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Richard L. McCathron
President & Director, Hippo Holdings, Inc.
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Clifford Gallant
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Matthew J. Carletti
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Operator
Good afternoon. Thank you for attending today's Hippo's Fourth Quarter 2021 Earnings Call. My name is Hannah and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions-and-answers. [Operator Instructions]

I would now like to pass the conference over to our host. Please go ahead.

Clifford Gallant, Vice President - Investor Relations, Hippo Holdings, Inc.
Thank you, operator. Good afternoon, everybody, and thank you for joining Hippo's fourth quarter 2021 earnings conference call. Earlier today, Hippo issued a shareholder letter announcing its fourth quarter results, which is also available at investors.hippo.com. Leading today's discussions will be Hippo's Chief Executive Officer, Assaf Wand; 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, 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 forecasts, 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 reliance on forward-looking statements, as Hippo is under no obligation and expressly disclaim any responsibility for updating, altering or otherwise revising any forward-looking statements, whether as a result 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 fourth quarter 2021 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, Co-Founder and CEO of Hippo.

Assaf Wand-Chief Executive Officer, Co-Founder & Director, Hippo Holdings, Inc.
Thank you, Cliff. Good afternoon, everybody. 2021 was a year of milestone for Hippo, including the public listing of Hippo shares and annual Total Generated Premium crossing the $600 million. Some of these successes were tempered by headwinds such as a sell-off in the equity markets for many tech/growth-oriented companies, catastrophe losses in our major geographic markets and heightened loss cost pressures for home repairs. However, Hippo ended the year operationally and financially strong, in a position to patiently weather the volatility of financial markets and a laser focus on executing against our long-term vision of protecting the joy of home ownership.

We believe we are transforming the home insurance industry with our proactive and holistic approach to home protection. Our 2021 growth in Total Generated Premium of 80%, supported by an 88% Hippo Homeowners premium retention rate, has validated that belief, so we are broadening our reach in 2022. In the coming months, we plan to extend our geographic presence from 37 states by adding major states in the northeast, as well as expand within our existing footprint with new products.

We will also continue to grow through our key partnerships. Through major US homebuilders such as Lennar and Toll Brothers, we are sourcing some of our best customers: newly built, tech-enabled homes with owners who want to use technology to improve their homeownership experience. Through our partnership with major financial service companies, we're able to reach potential homeowners at the critical moment when home protection is at the forefront on their mind.

I am pleased by the strong progress we are making to improve our loss ratio. Our Q4 Gross Loss Ratio of 89% was the best quarter of the year, in part benefiting from seasonality and also 13 points of reserve releases from prior periods. We are improving our loss ratio as we mature by using our technology to better calibrate pricing to risk, increasing our geographic diversity, and entering new markets. We view our progress in this area as particularly encouraging given the many pressures on loss costs.

We also have successful reinsurance renewal in January. Despite a hardening reinsurance market in which prices, terms and conditions were under pressure, Hippo was able to renew its main treaties with a panel of 11 A- or higher of rated reinsurers. This is up from a panel of nine in 2021. Our reinsurance partners are able to closely examine our underwriting practices, and we are grateful to have their continued support and confidence in our future results.

Technology remains a key differentiator for Hippo. First, we leverage technology to help customers rest easy in their homes through preventative maintenance and home care. Through our home inspection process, either in-person or through live video, we can inspect a customer's home, often leading us to facilitating preventative home repair measures. We also offer discounts to customers who partner with us to use technology like leak sensors or home security to help prevent loss.

What customers might not see is that we're also leveraging our technology to build a modern insurance company. Actuaries, Underwriters, Claim Adjusters, Insurance & Customer Support Agents, all leverage our modern tech stack to turbocharge their productivity and scale their daily operations with consistency and reliability. Recognizing the all-encompassing role of technology at Hippo, we are elevating one of our long-serving Hippos, Mr. Ran Harpaz, to the newly created position of COO. Ran will maintain his current responsibilities as Chief Technology Officer and will also oversee our end-to-end customer experience from product inception, all the way through customer support.

Another major accomplishment for the year was that despite a very difficult hiring environment, we expanded the Hippo team to 621 people, attracting top talent across a range of expertise. Starting her first day in 2022, we're particularly excited to welcome Mr. Grace Hanson, formerly with Hiscox, to our Hippo pod to become our first Chief Claims Officer. While we prefer to help our customers prevent claims, when unfortunate events do happen, we prioritize supporting our customers, and Grace will be working to enhance our capabilities in claims service.

While we're unsatisfied with the share price performance since our August 2021 listing, we have more confidence than ever in Hippo's long-term prospects and ability to modernize home insurance and protect the joy of home ownership.

Now, to talk a little bit more about our insurance operation, I hand the call over to our President, Rick McCathron.

Richard L. McCathron-President & Director, Hippo Holdings, Inc.
Thanks, Assaf. We believe 2021 was a preview of the long-term environment for the homeowners insurance industry. Increased volatility, unpredictable climate activity, inflationary home repair costs, and supply disruptions will require providers to have a level of responsiveness not previously seen in the industry. We have been developing a technology platform well positioned for such challenges.

In December, we rolled out our latest iteration of our underwriting engine. By introducing additional coverage options and using increased data, we have added granularity in our models and are better matching price with risk. While some existing customers will see price increases, others will see reductions. In Texas, for example, we have done significant re-underwriting in which approximately 25% of our Texas customers will see a rate decrease.

We've also begun rolling out our multi-carrier strategy, utilizing Ally and Incline, giving us additional avenues to file and set rates for targeted markets, increasing the number of pricing segments, adding additional rating verticals. Part of this strategy is opening up Ally for Hippo's preferred risks, enabling even more competitive pricing for preferred segments.

Our fastest growing distribution partnerships with homebuilders is also our most profitable channel. These partnerships are having a positive impact on countrywide profitability. This channel and related portfolio continues to indicate that it is aligned with profitable growth. We have not filed any rate activity or rate actions in this area.

One last point worth noting is how our tech stack allows us to accelerate pricing and underwriting changes. Our flexible tech stack enables us to do more and do more quickly. In our Texas rate riling, we introduced new data source, three new underwriting variables, and new coverage restrictions. Under traditional carrier legacy systems, the specs for such changes are frequently required to be provided to the IT organization months in advance.

With our tech stack, we were able to program these immediately after the rate change has been submitted, meaning we can launch changes as soon as they receive regulatory approval. The result in our timeline being shortened allows us to real time finalize proposals and submissions to the state. The extra time enables us to use the most recent data to pick our loss and trend factors. As an example, we see inflation is a major area to watch in 2022, and we're able to include our view of our rate selections. We also constantly update and re-underwrite each individual risk in our portfolio. When a policy comes up for renewal, we don't simply mechanically add an inflation adjustment. We re-underwrite the policy, updating it for all new data we've accumulated since the last renewal to enable our customers to properly protect their homes.

All in all we think our segmented multi-pronged approach to pricing puts us in a great place to drive profitable growth in 2022.

Now, I'd like to pass it over to Stewart who will update you on our financial progress.

Stewart A. Ellis-Chief Financial Officer, Hippo Holdings, Inc.
Thanks, Rick, and hello, everyone. Total Generated Premium grew 53% year-over-year to reach $163 million in Q4 and grew 50% year-over-year, and $606 million for the full year. Our premium retention remained high at 88%, an indicator that our customers continue to be pleased with our service and product.

Our growth was spread across our many distribution channel. As we said before, we're happy for our customers to purchase Hippo policies however they like, whether directly from Hippo, through independent agents or by way of one of our partnerships with homebuilders or financial institution.

We grew in each of our 37 states, including Texas and California, where we have repositioned our regional mix within these large states to diversify our cat exposure. We expect to launch additional major states in 2022. For the full year 2022, we are targeting Total Generated Premium in the range of $800 million to $820 million. Revenue of $32 million in Q4 was up 96% year-over-year. Our revenue includes premiums earned on business we've retained, growing streams of ceding, MGA, and agency commissions paid to us by reinsurers or other carriers in exchange for sourcing customers and/or risk that they retain on their balance sheets, as well as service and fee income from our customers.

Finally, through Spinnaker and its affiliates, our wholly-owned A.M. Best A- rated group of insurance companies, we continue to expand our business with third party program administrators, earning fronting fee income through our insurance-as-a-service model. Over time, we expect an increased share of our earnings will be derived from a stable and recurring stream of fee and commission-based income. In 2022, we expect our revenue growth rate will exceed our TGP growth rate and that we will generate revenue in the range of $140 million to $142 million.

Moving down the P&L, I'm pleased to report that we continue to make progress on improving our gross loss ratio. Q4's growth loss ratio of 89% is our best quarter of 2021. Given historical patterns of seasonality and catastrophic weather events we don't expect sequential improvement in each quarter of 2022, but we do expect meaningful and year-over-year improvement.

We're making great strides on each of our initiatives to reach our intermediate goal of industry level loss ratios while continuing to grow quickly. During the fourth quarter, PCS catastrophic losses accounted for 25 percentage points of our gross loss ratio, the largest of these events was the Marshall Fire in Colorado on December 30. Non-PCS large loss events accounted for an additional 11 percentage points. Our gross loss ratio also benefited by 13 percentage points from releases of reserves held for prior periods in 2021 due to favorable development across all perils. These releases had a positive impact on our Q4 gross loss ratio of 13 percentage points. As our book of business matures and achieves more balance and geographic diversification, we expect volatility from catastrophic and large loss events to decline.

Turning now to reinsurance. Despite a hardening reinsurance market, we successfully renewed and placed our primary homeowners reinsurance program for 2022. We expanded our quota-share panel from 9 to 11 reinsurers, all of whom are either rated A- Excellent or better by AM Best or appropriately collateralized.

As a reminder, we also have multi-year reinsurance for approximately one-third of our capacity from a separate reinsurance treaty we signed at the end of 2020. 2022 will be the second of its three-year term. We expect to retain approximately 10% of the homeowners premium that our MGA underwrites on the balance sheets of our insurance company subsidiaries or our captive reinsurance company. Our 2022 proportional reinsurance treaty does include loss participation features which may increase the amount of risk retained by the company in excess of our pro rata participation of 10%.

We reduce our risk retention through purchases of non-proportional reinsurance like excess-of-loss coverage. This program provides protection from catastrophes that could impact a large number of our customers in a single event. We buy XOL coverage to a 1:250 year return period. Or said another way, the probability that losses from a single occurrence exceeds the purchased protection is 0.4% or less, protecting us from all but the most severe catastrophic events.

Sales and marketing expenses increased to $25.7 million in Q4 versus $16.5 million in the prior-year quarter. As we continue to see progress in our key KPIs, we have increased confidence in raising the profile of our brand with potential customers nationwide.

Technology and development expenses were $13.5 million versus $4.8 million in the prior-year quarter. Technology is the backbone of Hippo, and we continue to relentlessly invest to better improve our customer offering, our API-oriented ecosystem, and the efficiency of our platform. Nearly a quarter of our employees are on the technology team, with the talent depth that any Silicon Valley company would be proud to have.

General and administrative expenses were $18.6 million in Q4 versus $9.5 million in the prior-year quarter, reflecting the increased costs of operating as a public company and increases in stock-based compensation. Our cash, cash equivalents, and investments at the end of the quarter stood at $839.6 million, positioning us well for an extended period of growth and investment.

Net Loss attributable to Hippo was $60.7 million or $0.11 per share in Q4 compared to a net loss of $54.1 million or $0.60 per share in the prior-year quarter. Adjusted EBITDA was a loss of $46 million versus a loss of $26.1 million in the year-ago quarter.

We remain confident in our outlook with strong profitable growth as we diversify and develop our business. To summarize our guidance for the year, we expect overall TGP in the range of $800 to $820 million, revenue to reach $140 million to $142 million, and barring major

catastrophes, a full year 2022 gross loss ratio under 100%, down from 138% for 2021, and on track for further material improvements.

I'd now like to pass it back to Assaf for closing remarks.

Assaf Wand-Chief Executive Officer, Co-Founder & Director, Hippo Holdings, Inc.
Thank you, Stewart. At a time when the world faces multiple challenges, we at Hippo understand that our homes to take on an even deeper meaning. Our vision of protecting the joy of homeownership has never been more important and we are energized by the progress we are making. We've assembled a world-class team, and we are building a momentum across all of our strategic priorities. I am proud of what we accomplished in 2021 but even more excited by the promise of 2022 and behind.

With that, we're happy to take your questions.

Question And Answer Section
Operator
Certainly. [Operator Instructions] The first question is from the line of Michael Phillips with Morgan Stanley. You may proceed.

Michael W. Phillips-Analyst, Morgan Stanley & Co. LLC
Great. Thanks, everybody, and good evening or good afternoon. Let me first off with a quick numbers question, and then we'll go into a couple others. The first numbers question is on your gross loss ratio, the 89%, you break it down for us in the cats and the large loss and the attrition, but I assume the attritional of the 53% that includes the 13%, right? So, maybe if we'd net that out, the true attrition is 66%, is that correct?

Stewart A. Ellis-Chief Financial Officer, Hippo Holdings, Inc.
Hi, Mike, this is Stewart. Now the large losses and the PCS cat events and the other attritional, those are mutually exclusive. So the numbers in the shareholder letter you're seeing...

Michael W. Phillips-Analyst, Morgan Stanley & Co. LLC
Yeah. So where is the 13%? I guess, where do we put the 13%? Yeah, they do so, but where's the 13%, I guess, is the question. 13% is part of the 89%, is that correct?

Stewart A. Ellis, Chief Financial Officer, Hippo Holdings, Inc.
I'm not sure I -- can you... [indiscernible]

Michael W. Phillips-Analyst, Morgan Stanley & Co. LLC
We can take it offline.

Stewart A. Ellis-Chief Financial Officer, Hippo Holdings, Inc.
Can you repeat the question? I'm not sure I heard it right the first time.

Michael W. Phillips-Analyst, Morgan Stanley & Co. LLC
Yeah, sure. So 25%, 11%, and 53%, that's you're 89%. But somewhere buried in those numbers, assuming not the 25% or the 11%, but probably the 53% is a negative 13%?

Stewart A. Ellis-Chief Financial Officer, Hippo Holdings, Inc.
Oh, yeah, I see. Yeah, it's across all categories.

Michael W. Phillips-Analyst, Morgan Stanley & Co. LLC
Okay. Okay. Okay, cool. All right, thanks. That's all the numbers question was. So can we talk, I guess, on your channels. Lots of positive talk and the profitability of the builder channel. I guess I want to see if you can compare how you think about your different partnership channel builder versus the financial services companies in terms of profitability, in terms of growth potential, in terms of overall market TAM that we both have. I guess, correct me if I'm wrong. I think of the financial services like the PennyMac as an example is more of a potential bigger size market, but maybe not growth, whereas the builder one, maybe a smaller TAM but possibly bigger growth and profitability. So I just kind want to mesh through all that in your partnership channels.

Assaf Wand-Chief Executive Officer, Co-Founder & Director, Hippo Holdings, Inc.
Yeah, hi, this is the Assaf, Michael. Thanks for the question. Let me start high level and kind of explain our view on the partnership channel. So the partnership channel is coming from this view that for many people, they actually never buy home insurance and don't mind. What they do. Buy is they buy a home. And if you get a home, then you usually need a mortgage, you need a mortgage, you need a proof of insurance. So that's how the flow basically in people mind goes.

And our view is that we want to have an omni-channel kind of strategy and support people whenever they, they basically want to purchase the policy. So the partnership track is about supporting people in the cycle of purchasing a home. So we work with realtors, we work with mortgage originators, mortgage servicers, title companies and builders is one of these things. Right as you stated, some of them that you view as more financial than they might be bigger in scale in some ways, but the attach is different and the risk that we get is slightly different and we have a customized solutions for each and every one of them, specifically for the builders, for instance.

So builders have their own challenges, which is different than other people challenges. There is usually a data deficiency for instance. So what I mean is if you're buying a property in a certain community, you don't even have an address. You don't know exactly the square footage. There's a lot of information that is missing in that front. And then you have very limited information about the potential tenant. And there's a lot of these components that create some issues for other standard insurance companies when they try to attach it to the policy.

On the other stuff, this is a brand-new home, so there's a lot less potential back losses that are hidden someplace. Builders gives warranty on the construction, so anything that's going to

happen in the [indiscernible] (22:56) is actually going to be covered by the builder. It's a brand-new community. So, for instance, there's no overarching tree or a 20-foot tree that is overarching your home that might fall. Everything is brand-new. The piping works, the sewage works, and it's lower the entire risk of the entire community. And builders have a full knowledge of the rebuilding cost of it each and every one of the home.

So what we've done in April, for instance, for the builders we've built a dedicated product to take all of these points into consideration. It has broader coverage in each of five products, so it's an all [indiscernible] (23:32). It has more correct price for this specific risk that the builder has. So it's better for the customers and it has higher attach rate that is beneficial for the builders.

There is unique data integration with the builders, the specific data, there is specific integration with the sales team on the ground. So the sales associates can actually offer something which is a lot more comprehensive and beneficial for the customers. And what we're seeing is that I would say that it's one of our fastest growing products and channel. And so just as an example, when we started working with Lennar, the attach rate of these products were hovering around 40%.

Now, what we're seeing with Lennar and some of our other builders that we have is an opt-in rate of around 90% in some of the regions in an attach rate, which is getting close to the 70% and we're very confident it's actually going to grow. So in short, this entire unique strategy is relatively unique. You need to have very, very strong data and technology underneath to support it. You need to have API that attach to the different systems in place, by the way, the regulatory and compliance components, some of them, you need the RESPA clear compliance some of them you don't have. So it's a lot of unique solutions that come into play. It's one of our fastest-growing channels and a profitable one for us. So we're going to continue announcing more and more of the partnership in the future, and we're going to double down on it.

Richard L. McCathron-President & Director, Hippo Holdings, Inc.
Hey, Mike. This is Rick...

Michael W. Phillips-Analyst, Morgan Stanley & Co. LLC
Okay. Thank you.

Richard L. McCathron-President & Director, Hippo Holdings, Inc.
...I want to clarify something.

Michael W. Phillips-Analyst, Morgan Stanley & Co. LLC
Hey, Rick. Go ahead. Sorry. Yeah.

Richard L. McCathron-President & Director, Hippo Holdings, Inc.

I wanted to clarify something on your first question to Stewart, which Stewart answered correctly, but I want to make sure it resonated with you with a little more detail. So the positive development on the reserve release, the 13 points you were talking about, that was not just attritional. I think you inferred what the attritional loss ratio would be as a result. As Stewart said, that's across all perils. Let me give you a specific example. Winter Storm Uri was a unique event, and it had a different reporting pattern than other events. So as the year went on, we were seeing positive development across all perils, not just attritional perils.

Michael W. Phillips-Analyst, Morgan Stanley & Co. LLC
Okay. No, thank you, Rick. That's helpful. Appreciate that. And I guess my last one, a follow-on to that last answer from Assaf. You touched on it a bit. You touched on it before. I guess one of the things we get a lot is, gosh, if these guys are doing this great partnership thing and it's really cool, but I mean, why can't Allstate do that? Why can't Travelers do that? And won't they do it more successfully and faster? So what would you say to that because it's a question that comes up quite a bit?

Assaf Wand-Chief Executive Officer, Co-Founder & Director, Hippo Holdings, Inc.
Yeah. A couple of things. First one is what we're seeing now is that insurance companies in general, it's probably one of the most severe channel conflicts that you've ever seen. So usually what happen is if [indiscernible] (26:34) wants to offer, their entire deal is that they are going to direct the traffic to Joe Schmoe or live in Main Street in a certain corner. And to do something which is holistic that takes care of, that if you're attaching State Farm and you don't attach the specific agent is something which is conflicting. So we're doing something which is holistic. You're always going to get the Hippo experience. It's not the specific agent that has to do with it. So we're not directing to a specific agent, we're directing to Hippo and we're taking care of that.

The second thing, as I said, different companies have different infrastructure, different data sources, unique compliance regulation and needs. And it's not a trivial thing to actually fit it. What PennyMac has and what Homepoint has, it's different than what Chase says and what Blend has. InCompass has a different touch point and a different customer. Different customers, different systems, different products, different companies have a very unique company.

You need to remember that its essence, and that's what we do at Hippo, it's an insurtech company. So there has been insurance, but there is a full technology piece underneath it. We're sitting now in Palo Alto, and it's in the heart of Silicon Valley, and we need to have a certain level of engineers, a certain level of data scientists, and we need to match and cater to all of these needs of the different systems, and it's not a trivial thing.

It's not using a third-party system. It's using our own system, our own policy management system and it's never a copy paste. It is never a one standard API. There are lot of integrations and this is something that we take a lot of pride in an IPO and we feel very good at. So, it's not a trivial thing to just to attach it.

Stewart A. Ellis-Chief Financial Officer, Hippo Holdings, Inc.
Mike, this is Stewart. I'll add one thing. We know from our experience with builders like Lennar that the performance that we've been able to generate for them in terms of attach rates, opti-in rates are meaningfully higher than they were before we started. So, it is not that other companies are not attempting to do that through other agencies and other things. It's just that the thing Assaf talked about, the technology that we have and our ability to work in an iterative way with the partners just results in better performance.

Michael W. Phillips-Analyst, Morgan Stanley & Co. LLC
Okay. Thank you, guys, appreciate that. So I...

Assaf Wand-Chief Executive Officer, Co-Founder & Director, Hippo Holdings, Inc.
Thank you, Michael.

Operator
Thank you, Mr. Phillips. The next question is from the line of Yaron Kinar with Jefferies. You may proceed.

Yaron Kinar-Analyst, Jefferies LLC
Thank you and good afternoon everybody. First question goes back to the TGP growth and Assaf I think you mentioned you were seeing more significant growth coming from the partnership channel. Could you maybe help us think through where -- maybe if we think of each of the channels that you have prioritization of growth or where do you see the most growth coming from over the next year from highest of these?

Assaf Wand-Chief Executive Officer, Co-Founder & Director, Hippo Holdings, Inc.
Sure. Let me take a first stab and then I'm sure that Stewart can add some component. We have an omni-channel approach open. And while we're seeing -- at different periods of time, we're going to see different growth in different channels. So when there is an increasing cost on the direct to consumers, then we might lower that and we're going to double down on some other.

And when we are seeing a change in more, I would say, appetite, by some of the financial partners to actually double down more on these things then we're going to work closely with them. So, it might change over time. What we're seeing now is in the hands growth on the partnership and slightly less growth on the producer side, but it keep on evolving almost on a daily or a weekly basis. I would say that the end state of what we're probably going to get is we call it a third, a third, and a third.

So a third of our business is going to come from direct-to-consumer, a third of our business is going to come from producers, and a thirdof our business is going to come from partnership. But it doesn't mean that at any given point it's always going to be the same breakdown. But we are very bullish on all of these things. And what we're seeing right now is that the partnership is

what's going really very fast. Don't forget that at the end of the day it started from the smallest base for us, so this was the largest and the second largest was direct-to-consumer, and the third largest was the partnership. And what we're seeing is that channel is picking up significantly.

Yaron Kinar-Analyst, Jefferies LLC
Got it. That's helpful. And then if I think about commissions or fees more in the independent agency channel versus, I mean, the partnership channel, are those roughly similar? And if not, do you account for that in your pricing product?

Richard L. McCathron-President & Director, Hippo Holdings, Inc.
It is different predominantly because of structure and how we actually set up the partnerships. So a traditional independent agency will have a higher commission rate than our partnerships because we generally do these through joint ventures with the partnership. So it is not the same. And there's more value-add that we get when we are doing the joint venture partnerships.

As an example, when a customer buys a Lennar home and they're happy with the Hippo products within the Lennar home, the next question they ask is, great, can you help me with car insurance. And our answer is absolutely, we can. We are happy to cross sell somebody else's manufactured product in the agency that we partner with Lennar on. So, it creates the opportunity to earn revenue, non-risk-based fee revenue alongside the risk-based homeowners revenue for selling the Hippo product.

Stewart A. Ellis-Chief Financial Officer, Hippo Holdings, Inc.
Yeah. And this is Stewart, Yaron. One thing to add there. On the independent agent fees, we do have a lower renewal commission than we do on new business commission. So as the book of business matures, the overall percentage of fees as a percentage of premium will decline gradually.

Yaron Kinar-Analyst, Jefferies LLC
Okay, got it. One quick numbers question, if I can. Can you maybe talk about the prior period development and the cat losses on a net base as well?

Assaf Wand-Chief Executive Officer, Co-Founder & Director, Hippo Holdings, Inc.
I'm sorry. We didn't hear the last part of your – yeah.

Stewart A. Ellis-Chief Financial Officer, Hippo Holdings, Inc.
The last part of your question dropped off.

Yaron Kinar-Analyst, Jefferies LLC
The numbers you provided for both catastrophe and for the prior period development were both on a gross basis. Could you offer those on a net agreement?

Stewart A. Ellis-Chief Financial Officer, Hippo Holdings, Inc.
Yeah, I think we may need to get back to you on that, Yaron.

Yaron Kinar-Analyst, Jefferies LLC
Okay. Okay. I'll [indiscernible] (33:48) you.

Assaf Wand-Chief Executive Officer, Co-Founder & Director, Hippo Holdings, Inc.
Thank you.

Operator
Thank you, Mr. Kinar. The next question comes from the line of Matt Carletti with JMP. You may proceed.

Matthew J. Carletti-Analyst, JMP Securities LLC
Thanks. Good afternoon. The first question I wanted to talk about the loss ratio guidance for 2022. Could you put some color around it in terms of maybe what we should expect from an attritional basis, so obviously peeling off the large losses in the cat, 53% Q4 or 54% for the full year, so pretty similar. As we go throughout, I understand your comments about not expecting quarter-by-quarter improvement, but as we sit at the end of 2022, should we expect improvement in that number and any more color you could provide there would be helpful. Thank you.

Stewart A. Ellis-Chief Financial Officer, Hippo Holdings, Inc.
Yeah. No problem, Matt, this is Stewart. I think there're a couple of things that are going on. One of the reasons that -- as you rightly pointed out, we do have volatility in the weather over the course of the middle of the year. So when we think about sequential improvement in loss ratios, while our book is still concentrated in certain areas that have shown volatility in the second and the third quarters, it is a little bit hard to imagine that it's just going to be a smooth steady March downward.

That said, relative to 2020, we do expect a significant improvement year-over-year. We'll have more visibility into what the ultimate loss ratio is going to be in 2022 as we make our way through the year. That volatility will decline. And as we grow and add the geographic diversity to the book into the portfolio, that weather-related volatility will become a lower and lower source of variance on that.

With respect to the mix of attritional and cat-related losses, that's also something that will have some variability over the course of the year. As we mentioned in the earlier part of the call, even within states like Texas, we have shifted our regional concentration – Texas is a very big state – away from the northern part of the state where we've had historically higher hail losses to other parts of the state and then across states as we build that geographic diversity in the portfolio. The specific contribution of weather and cat-related events to the premium, that's going to change over the course of the year as the mix of our states changes.

Richard L. McCathron-President & Director, Hippo Holdings, Inc.
Yeah. Matt, just a couple additions to that. First of all, as you know, we've increased the speed and number of rate filings that will take effect throughout the year. And rate filings dramatically help attritional loss ratio. So as those filings get approved by the various regulators, that will show some inconsistent improvements nonetheless, but inconsistent improvement depending on when those rate filings go live and as they – the premiums for those increased rate filings start to earn out.

Secondly, as Stewart mentioned, understanding that our loss ratio currently is based on some geographical concentrations that we have shown meaningful improvement on over the last few years. As we continue to grow geographically, the number of states we have that have higher weather-related losses will shrink and those that have higher attritional losses will increase because if you take a state with very little weather, of course, the attritional loss ratio is higher and we are not fully diversified yet in the states that provide a balance. That will shift and change as time goes on.

Matthew J. Carletti-Analyst, JMP Securities LLC
All right. Very helpful. And one other one, if I could, just a high-level question. I mean, I think if I'm hearing you guys right, I mean I think the very high level message is you expect to still grow very strongly obviously, while, at the same time, what we're just talking about improving your loss ratio. That's a difficult balance at times, so can you talk a bit about how you expect to balance those two goals and meet those goals?

Stewart A. Ellis-Chief Financial Officer, Hippo Holdings, Inc.
Yeah. Yeah, sure. So I think first thing, it's important for all of us to understand about the way we think about this is that we're focused on delivering thoughtful, profitable growth. And at this point, we know that the entire industry is taking rate due to inflationary pressures and we've got a lot of filings that are in process across the country.

As we get comfortable that we have rate adequacy and that we're properly calibrated from a pricing standpoint – not too high, not too low – in various parts of the country, it's going to get easier and easier for us to lean harder into growth over the course of the year. But I would say that Hippo may have some unique advantages going into 2022 from a growth standpoint and does fall into a few buckets, right?

We're entering large new states that we're not currently in. We're able to roll out new products in our existing states. We've talked already on the call about the strong partnerships we have with homebuilders and financial institution that give us access to what we believe is positively selected risk. And we know that bringing the new geographic diversity into the portfolio, we expect that that will bring the weather-related volatility down.

So we see ourselves as a – because of the platform we've built, we have a very, very wide top-of-funnel and so we can bring growth to the business, while optimizing loss ratio. And so we see the benefits of that growth in the reduction of volatility from weather in the loss ratio as well.

Richard L. McCathron-President & Director, Hippo Holdings, Inc.
Yeah. As we mentioned, our guidance for 2022 is a sub-100% loss ratio. I just want to make a clear point that our intermediate term goal is to get the loss ratio to industry norms, which is within the 60s, while continuing to grow. So our targets as an [ph] intermedium (40:27) goal is within the 60s, while still demonstrating healthy growth.

Matthew J. Carletti
Analyst, JMP Securities LLC
Great. Thanks for the answers. Very helpful.

Operator
Thank you, Mr. Carletti. The next question is from the line of Alex Scott with Goldman Sachs. You may proceed.

Taylor Alexander Scott
Analyst, Goldman Sachs & Co. LLC
Hi. Good afternoon. First one I had is just on the reinsurance renewals, could you give us a feel for how the two-thirds that was re-priced could impact just the reinsurance costs and if there's any sort of noticeable impact to loss ratios we should consider?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah. Alex, this is Stewart. I'll take that – the first part of that and then, Rick, feel free to add anything.

Our ceding commission on the annual reinsurance fee is very similar to what it was in 2021. And while we're not disclosing the specifics of the individual contracts we have with reinsurers, we do feel like it was a successful renewal.

And we mentioned in the prepared remarks that we do have some loss participation features and we buy XOL protection to protect us from large losses. So we do feel like we, despite the fact that it is a hardening reinsurance market, we have the confidence of our reinsurance partners and that we're executing on the plans that we've discussed with them. And we feel confident that we have strong protection for the balance sheet.

Richard L. McCathron
President & Director, Hippo Holdings, Inc.
Yeah. Just to emphasize what Stewart was saying is that this 2022 treaty was oversubscribed. And keep in mind that every one of our reinsurance partners closely examines our underwriting practices, our use of technology, our ability to incorporate inflation guards and inflation accelerators at a rapid pace. And we recognize, as they do, we are long-term partners.

Without a level of trust with our reinsurers, we will not be successful. And we have built that trust with them. And their view of what we're doing is one that created additional reinsurers joining our panel and an oversubscription scenario.

Taylor Alexander Scott
Analyst, Goldman Sachs & Co. LLC
That's really helpful. Thank you. Next question I had is just on retention. It looked really strong this quarter. Is it fair to say that's a good indication of how things are going in terms of repricing action? I know there is, I think, some investor nervousness around just the size of the rate hike that was being taken in California. But can we take this to mean that early indications are that's not affecting retention and any comment on how you'd expect repricing to affect retention in 2022 more broadly?

Richard L. McCathron
President & Director, Hippo Holdings, Inc.
Yeah, I think that's accurate. And the reality is the industry is taking a lot of rate that we are in an inflationary cycle. States like California, we're not the only one, lots of folks are taking rate.

One thing that's relevant, I think, is that we've launched a more robust pricing model than we had before and we are better matching premium to risk. And it's not a situation where everybody is going to get rate increases. We mentioned in our prepared remarks some of what was happening in Texas. We do have customers – because we have more granular pricing and segmentation, our use of our multi-carrier strategy, using the different underwriting companies, which only affects new customers, not existing customers. We do see situations where the Hippo risks that we're targeting, we'll see rate decreases.

So, we're very pleased with the retention numbers and very optimistic that it will continue.

Taylor Alexander Scott
Analyst, Goldman Sachs & Co. LLC
Thanks. Maybe if I could sneak one last one in, just circling back on the reinsurance, were there any material changes to the amount of risk retention that you have in excess of sort of the 10% [ph] quota (44:37) share that you'd take? Anything we should think about there in terms of volatility that we could see associated with higher risk retention or was it fairly similar to 2021?

Richard L. McCathron
President & Director, Hippo Holdings, Inc.
Yeah. From a quota share proportional perspective, we're actually taking a little bit less than we did in 2021, but we have instituted or initiated certain performance mechanisms on loss ratios above certain thresholds. And so, we are better aligning our economic models from a loss perspective with our reinsurance partners. I don't think it's a meaningful change, but it is different.

We do have a very sophisticated reinsurance treaty, and that sophistication allows us to protect ourselves against large losses, while maintaining a capital-light structure, yet demonstrating to our reinsurance partners that we are just that. We are partners. And together, we have strong beliefs that the loss ratio is not only going in the right direction, but we'll continue to do so on a year-over-year basis.

Taylor Alexander Scott
Analyst, Goldman Sachs & Co. LLC
Thanks.

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Thank you, Alex.

Operator
Thank you, Mr. Scott. The next question is a follow-up question from the line of Yaron Kinar with Jefferies. You may proceed.

Yaron Kinar
Analyst, Jefferies LLC
Thanks. So, I want to go back to the comment around the expected increase in share of earnings coming from stable and recurring commissions and fee-based income. So, does that simply mean that the example that you gave earlier of maybe getting additional fees through launching or partnering with other third-party insurers and maybe some of the ceding commissions, that you expect those to go up? Does it mean that you may not be looking to reduce the use of reinsurance over time because you're not necessarily expecting the portion of underwriting and earnings to go up? How should we think about that?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah. I think, Yaron, I'll take that. It's Stewart. I think it reflects an increased confidence that we have in the agency portion of our business. And it's not – I don't think I would take that as a commentary on the way or the amount of reinsurance that we're going to be using.

As I think we said before, we have the MGA. We have the insurance-as-a-service kind of carrier business in the form of Spinnaker. We have our own agency, which allows us to sell other carrier policies, whether they'd be home insurance policies or auto insurance policies. We're getting better operationally at delivering a solid experience, whether someone's buying a policy from Hippo or through us from another carrier.

And I do have the answer to your previous question about the favorable reserve development on a net basis. For Q4, it was 34 percentage points favorable on a net basis..

Yaron Kinar

Analyst, Jefferies LLC
Got it.

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
And on a gross basis, as a reminder, 13 points favorable.

Yaron Kinar
Analyst, Jefferies LLC
Okay. And on the cat side, do you have those on a net basis?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
I don't think we've broken down. The reserve releases that we said were across all perils, so it's a broad release of reserves as we've gotten comfortable that we're properly reporting the reserves on the balance sheet.

Yaron Kinar
Analyst, Jefferies LLC
Okay. Then could you maybe explain or walk us through the increase in the insurance-related expenses, which seem a bit more meaningful this quarter, both on a year-over-year and quarter-over-quarter basis?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Yeah. I think that's – it's a bit of a technical answer, but I think it'll make sense when I go through it. You'll recall that we closed the Spinnaker acquisition towards the end of Q3 2020. And before the acquisition, all of the commissions that we paid to producers and partners were recognized in our P&L at a point in time.

And following the acquisition, like with other items in the P&L when we switched to Topic 944 accounting, the commission is recognized over the life of the policy. And so, in Q4 2020, the P&L only reflected one quarter of the commission amortization for that group of policies, whereas in Q4 of 2021, we have functionally a full year of commissions. This also shows up in the same way in the commission income if you look at Q4 2021 versus Q4 2020.

So, happy to talk in more detail about the technical pieces of the accounting offline, but it's basically a comparability issue.

Yaron Kinar
Analyst, Jefferies LLC
Got it. So, going forward, we should probably look at this quarter's insurance-related expenses at a reasonable run rate?

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
I think that's right. I think we still – there will be a few more quarters where it's not perfectly comparable because each of the prior quarters will need to have a full year before it becomes fully apples-to-apples. But, yes, I think as we think about the relationship between that variable and the drivers, it's more stable now [ph] than it was (50:25).

Yaron Kinar
Analyst, Jefferies LLC
Got it. One last one from me. How much rate did you take in 4Q 2021 and maybe also in full year 2021?

Richard L. McCathron
President & Director, Hippo Holdings, Inc.
I don't think we have disclosed the individual rate actions that we have taken. Although it's, of course, our public information that can be pulled from the Departments of Insurance websites, but we have not broken down or disclosed rate actions.

Also because they're – we've begun taking rate actions and we have over the last year or so, but we're just at – we're not at the end of it. There's still plenty of rate action to be taken. But again, those are all filed with each regulator.

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
And as Rick said earlier, it's not all increases. A lot of the rate that we're filing is a calibration, where certain categories of homes and kinds of risks are getting price decreases and others are getting price increases.

Yaron Kinar
Analyst, Jefferies LLC
Thank you very much.

Operator
Thank you, Mr. Kinar. There are no additional questions waiting at this time. So I will pass the conference over to the management team for any additional remarks.

Assaf Wand
Chief Executive Officer, Co-Founder & Director, Hippo Holdings, Inc.
Thank you. Just wanted to close it and say, thanks everybody for your time. Appreciate it. And as I conclude the other remarks, we're entering 2022 with a very confident mindset. It's not an easy time out there in the world. It's not an easy time to be an insurance company. But with the team, with the technology, with all of the things and the growth that we're seeing, we're optimistic and we think 2022 is going to be a stronger year for Hippo.

Stewart A. Ellis
Chief Financial Officer, Hippo Holdings, Inc.
Thank you all for your time.

Operator
That concludes today's Hippo fourth quarter 2021 earnings call. Thank you for your participation. You may now disconnect your lines.