

Hippo Holdings Inc. NYSE:HIPO

FQ4 2022 Earnings Call Transcripts

Thursday, March 2, 2023 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(2.63)	(2.70)	NM	(2.21)	(12.93)	(12.12)	NM	(8.29)
Revenue (mm)	34.13	35.80	▲4.89	31.74	118.05	119.70	▲1.40	179.10

Currency: USD

Consensus as of Mar-03-2023 8:18 PM GMT

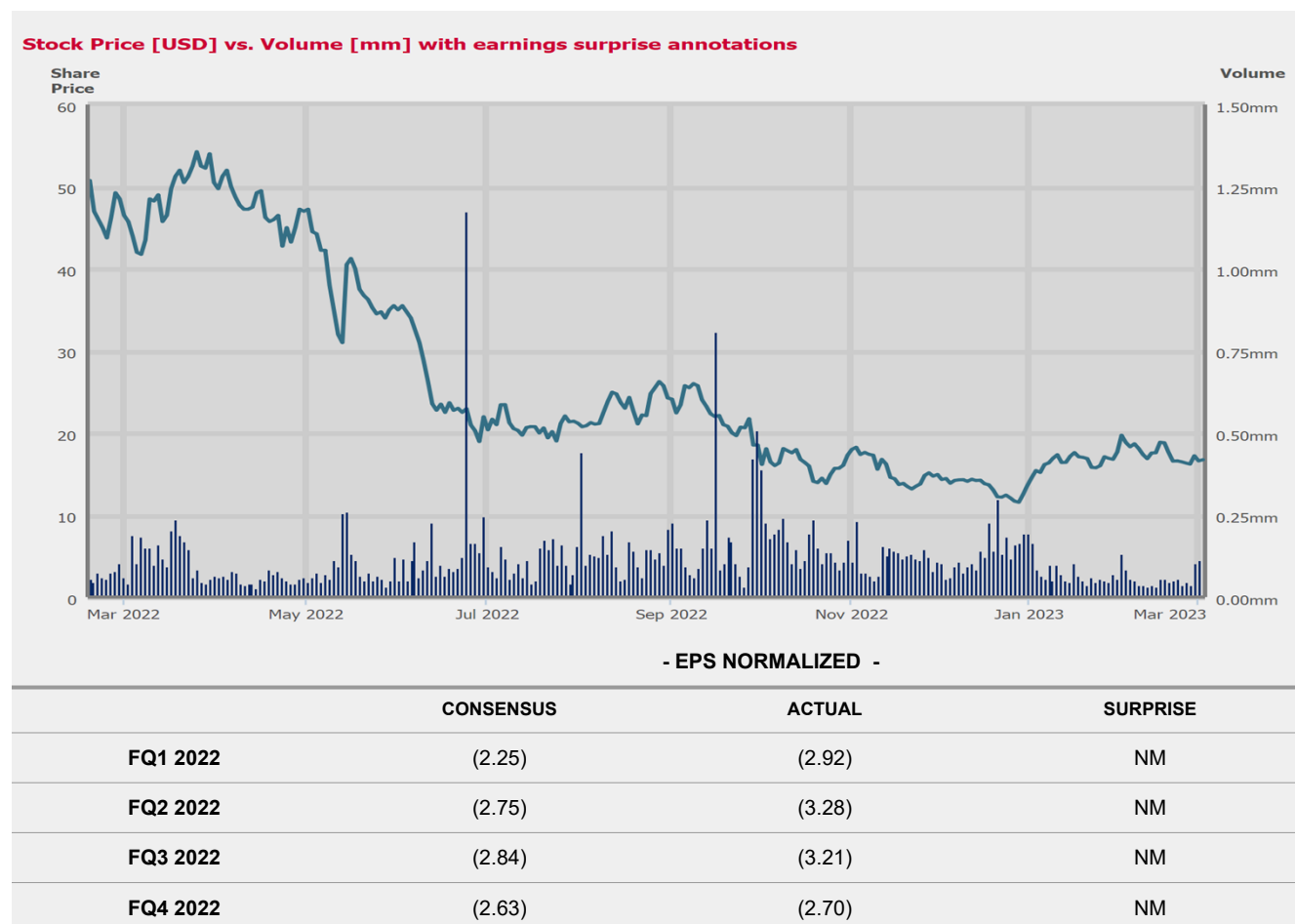


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Call Participants

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Clifford Henry Gallant
Vice President of Investor Relations

Richard Lyn McCathron
President, CEO & Director

Stewart Andrew Ellis
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JPMorgan Chase & Co, Research Division

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

Presentation

Operator

Good afternoon. Thank you for attending today's Hippo Fourth Quarter '22 Earnings Call. My name is Hannah, and I will be your moderator for today's call.

[Operator Instructions] I would now like to pass the conference over to our host, Cliff Gallant, Investor Relations. Please go ahead.

Clifford Henry Gallant

Vice President of Investor Relations

Thank you, Operator. Good afternoon, everybody, and thank you for joining Hippo's fourth quarter earnings conference call. Earlier, Hippo issued a shareholder letter announcing its results, which is available at investors.hippo.com. Leading today's discussion will be Hippo Chief Executive Officer and President, Rick McCathron; and Chief Financial Officer, Stewart Ellis. Following management's prepared remarks, we will open up the call to questions.

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

More information, please refer to the risks, uncertainties and other factors discussed in Hippo's SEC filings, in particular in these sections entitled Risk Factors. All cautionary statements are applicable to any forward-looking statements we make whenever they appear. You should carefully consider the risks and uncertainties and other factors discussed in Hippo's SEC filings. Do not place undue reliance on forward-looking statements as Hippo is under no obligation and expressly disclaims any responsibility for updating, 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 fourth 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 Rick McCathron, our President and CEO.

Richard Lyn McCathron

President, CEO & Director

Good afternoon, everyone. Hippo was founded in 2015 with a bold vision to fundamentally improve the homeowners' insurance experience by partnering with customers, helping them better maintain and protect their homes. It takes a long time to build a profitable insurance company, building a recognized consumer brand, developing best-in-class underwriting and bringing enough customers together while bringing out the volatility of the policy portfolio. None of this happens overnight.

The 10 largest homeowners' insurance carriers in the U.S., on average, are over 100 years old, and they firmly have the advantages of time on their side. We believe the incumbent players have become complacent. Rapid technological change and the explosion of data and analytics capabilities over the past decade have not only made it possible for a company like Hippo to exist, but also to build a superior customer experience and a national footprint far faster than any legacy carrier could have imagined.

Consumers have come to expect high standards of service and Hippo is well positioned to deliver. With Hippo's foundation firmly in place, 2022 was a year of rapid progress advancing other aspects of our company. Success in this endeavor comes down to 2 simple faiths. First, make the experience of being a Hippo customer the best around. So our customers will partner with us over the long-term. When unfortunate things happen, we think modern protection is the best protection, innovations and loss prevention and claims handling can put Hippo at the forefront of customer care. Second, make the rest of our company as strong as our foundation. By using our technology to rapidly improve our ability to deliver on the fundamentals of insurance, we are now marching towards profitability ahead of schedule and creating a financial future that is built to last.

Here are some of the highlights of what we develop for our customers and partners as we look back on the last 12 months. We launched our Book of Pro pilot in Texas, which enables Hippo customers to use the Hippo app and order home repair services through a curated network of providers. We're ramping up cross-selling of non-Hippo products, both home and auto as a third-party agency, allowing our customers to satisfy all of their insurance needs with Hippo. We've added new builders to our builder network, and we recently launched Hippo's Builder Insurance Agency for small regional builders, making Hippo's new builder policy and experience available to a much larger group of prospective homeowners.

We've also met and exceeded our KPI targets for the year, including 62 percentage points of gross loss ratio improvement in 2022 versus full year of 2021, improved our targeted marketing. Over 75% of new customers fall within our Generation Better target market. Added geographic diversification, we're now in 40 states, covering over 90% of the population. We've improved our claims experience through the use of aerial imagery to rapidly assess damage after catastrophes. We had TGP growth of 33% in 2022 over 2021. We successfully placed our 2023 reinsurance program with improved terms and conditions. And finally, we're getting ahead of cost, as Q4 saw a flattening of fixed operating expenses.

We have a lot going on at Hippo. But as we look out for 2023, there are a few key areas of focus for our company. First, we want to make sure that all of our customers have a superior Hippo experience, whether they buy a Hippo Home Insurance policy or one of our third-party offerings through our agency. Second, our Hippo Home Insurance net loss ratio, which has already shown much progress, we'll show much more as the actions that we've already taken work their way into the results. Third, we are investing in Hippo Home Care business, which we believe will become a key differentiator of our customer experience in the years to come.

As I begin my first full calendar year as Hippo's CEO, I could not be more excited about our vision and the execution we achieved in 2022, turning that vision into reality. The most exciting part is that for both our customers and our shareholders, the best is yet to come.

Thanking you for your support and for joining us on this journey. I will now turn it over to Stewart to share a few more details on our financial performance.

Stewart Andrew Ellis
CFO & Treasurer

Thank you, Rick. In the fourth quarter, Hippo took another step forward along our path to profitability with an adjusted EBITDA loss of \$47.3 million, improving upon our Q3 2022 results. Our growth rates remain strong, and we're beginning to achieve the positive operating leverage that will drive our long-term profitable growth. TGP growth accelerated in Q4, rising to an increase of 44% over the prior year quarter to \$234 million, bringing our full year 2022 TGP to \$811 million, in line with our original 2022 guidance. Demand for our products and services remains strong, and customer retention has continued to improve with blended premium retention across both Hippo policies and agency customers coming in at 92% in the quarter, up from 90% in Q3 and 89% in Q2.

We saw growth throughout our 40 states as we began to build a presence in the Northeast and Mid-Atlantic. We've recently been more cautious about growth in our historically largest markets. But in the quarter, we saw higher growth in Texas as our footprint in the state becomes more balanced. In our services business lines, where our economics are predominantly fees and commission income, TGP was driven by strong fiscal year end home sales in our thriving builders business, which is seasonally typical for Q4.

We recently announced the launch of Hippo Builder Insurance Agency designed for smaller regional homebuilders. We're taking the embedded product of our fastest-growing, most profitable distribution channel and expanding it to include small builders nationwide. Our technology allows us to begin quoting a new partner's leads in as little as 2 weeks without the builder needing to invest significant resources. With builders outside of the top 10 responsible for over half of homes built in the U.S., we see this as a material long-term opportunity.

Another part of our services business to keep an eye on is First Connect insurance services, our rapidly growing digital platform designed to support independent agents by providing access to the nation's top carriers across numerous lines of business. This agent-centric platform provides access to over 60 carriers and a variety of products that include home, auto, cyber, small business, life, specialty lines and more. The recently launched Carrier Store helped agents discover additional carriers and products that can be bundled to increase sales.

In Q4, Berkshire Hathaway's biBERK was added to the Carrier Store's roster of insurance providers. Spinnaker's program business added \$84 million of non-Hippo TGP in the fourth quarter, up from \$38 million in the prior year quarter. At Spinnaker, we provide other Managing General Agents access to our balance sheets and insurance licenses in exchange for fronting fees and often a small percentage of the underwriting results on the premium that they produce. In 2022, we brought several new programs online, offsetting lower volume from programs that we put into runoff earlier in the year, which boosted our TGP.

In the Hippo Home Insurance program, where our economics are driven by underwriting performance, TGP growth was in the mid-teens. Over the course of 2022, we have executed significant re-underwriting actions, including new pricing matrices and claims handling improvements. In what continues to be a challenging economic environment with higher and more volatile inflation rates, we continue to be proactive about re-pricing and reunderwriting actions, which are expected to drive significant growth and net loss ratio improvement over the course of 2023.

Our revenue in the quarter was \$35.8 million, up 11% over the prior year quarter, bringing full year results to \$119.7 million, in line with our guidance. Looking ahead, we expect very strong 2023 revenue growth, above 40% as our new reinsurance treaty will lead to retention of higher net premiums earned. Our Q4 gross loss ratio of 42% was the best in our company's history since going public. Favorable reserve releases from prior accident years benefited the gross loss ratio by 10 points. We are also reporting 2 points of benefit from PCS defined cat losses in the quarter because Q4's cat losses of 13 points, which were largely due to winter storm Elliot, were more than offset by current year favorable development from our initial loss pick from Q3's hurricane Ian, which happened in the final days of Q3.

For the full year, our gross loss ratio improved 62 percentage points year-over-year to 76% from 138% in 2021, and we expect ongoing underlying improvement in 2023. We have taken many actions to drive better loss ratio results, including re-pricing, reunderwriting, more focused marketing on our target generation better customers, growth of our builder channel, increased geographic balance and improving our claims processes. As we continue to grow our TGP and revenue, we're also beginning to achieve positive operating leverage as our expense line items flattened or decline year-over-year. We're expecting this improvement to accelerate over the next 18 to 24 months.

Our sales and marketing costs were \$28.1 million in the quarter, up from \$25.5 million in the prior year. But outside of increased stock-based compensation, our marketing spend has declined. Looking ahead, our marketing will be more focused on our targeted demographic and desired geographies while also reaping the benefits of our embedded partnerships and the word-of-mouth rewards of strong customer service.

Our technology and development costs were \$11.5 million, down from \$14.8 million, reflecting the rightsizing decisions we made in Q3. We are committed to focused investment in our technology platform, which we view as a key differentiator, and we continue to invest aggressively in our development team in Warsaw, Poland.

Our G&A expenses were \$17.8 million, down from \$19 million in the prior year quarter as we begin to see the bottom line impact of our increased emphasis on cost control. Unrestricted cash and investments at December 31, 2022 were \$640 million. While we remain highly conservative in our asset allocation, we're beginning to see the benefits of our shift into short-duration, highly rated securities.

Investment income contributed \$5 million in the quarter, up from less than \$1 million in the prior year quarter and \$2.5 million in Q3 of 2022. At year end, Spinnaker's policyholder surplus was \$165 million, up from \$132 million at the end of Q3, driven largely by a \$30 million contribution from Hippo Holdings to support future growth.

Net loss attributable to Hippo during the quarter was \$63.1 million or \$2.74 per share compared to a loss of \$60.7 million or \$2.72 per share in the prior year quarter. On an adjusted EBITDA basis, our net loss was \$47.3 million versus \$46 million in the prior year quarter.

As we turn our attention to the future, I would like to summarize our high-level guidance for full year 2023. We expect consolidated TGP to grow to nearly \$1 billion. We expect our revenue will grow by over 40%, and we expect our adjusted EBITDA loss will be \$147 million. We also reiterate our expectation that we will be adjusted EBITDA positive by year end 2024.

I'll close by pointing out that we have posted a supplemental analyst package on our website, which has more detailed information and our outlook for the individual business lines that we'll be reporting under in 2023. I think you'll find that additional detail helpful in understanding Hippo's business trajectory.

With that, I'd like to thank you for your time today and to open the line for questions.

Question and Answer

Operator

[Operator Instructions] The first question is from the line of Matt Carletti with JMP.

Matthew John Carletti

JMP Securities LLC, Research Division

I was hoping you could comment on the new reinsurance program that you put an announcement out, you put in place to start the year. Just one, is it done? Or do you look to put some more pieces to it in place across the year? I know it's a dynamic reinsurance environment. And then 2, just being go through what we should expect in terms of financial impact, if I'm understanding it correct, it feels like the net loss ratio should start to come down to approach the gross loss ratio as it earns its way in. Maybe I'm misunderstanding that, but is that accurate?

Richard Lyn McCathron

President, CEO & Director

Yes. Matt, thanks for the question. I'll go ahead and start with the beginning part, and then Stewart can jump in with some more specifics. First of all, though, I do want to introduce to the group, Chris Donahue. Chris is our Chief Underwriting Officer. He's been with us now for nearly 2 years. And Chris and his team have been instrumental in the significant loss ratio improvement in the geographical diversification that we've achieved in such a short time period. Because of these improvements, we did see very strong support from the reinsurance markets. In fact, we had 9 participants on the program this treaty. And keep in mind, when reinsurers are evaluating the participation, they do a tremendous amount of forward-looking calculations, taking all the actions that we've already put into place and bringing everything to current rate level. And I think that's where you saw sort of the bullish nature that they had on our program. I am pleased that we actually achieved improved terms and conditions during a very difficult reinsurance market. And because of all of these things, because of the improvement, we're structurally shifting to an environment, where we are going to retain more risk in areas that we can control, sort of the day-to-day attritional losses. Yet, we're still very much protecting the balance sheet for items that are outside of our control, such as the weather. So that's kind of the structural component. Stewart, do you want to jump in?

Stewart Andrew Ellis

CFO & Treasurer

Sure. Matt, happy to add a little bit of color here in terms of the financial impact of the treaty in 2023. As Rick said, we're making the structural shift, but also the treaty in 2023 is going to bring the premium that retain more in line with the losses that we retain. Our 2022 treaty had loss participation features that meant for the non-severe weather portion of the risk, we retain about 30% of the exposure, but only retain around 12% of the retained premium. In 2023, those numbers are going to come much closer together. So our underlying exposure in the non-severe weather category is up to around 42%, but the premium that we're going to retain is up to 39%, so a much larger increase in retained premiums than underlying exposure.

The way that we'll work itself into our financials is as the policy portfolio transitions from the 2022 treaty on to the 2023 treaty as each policy renews, you'll start to see the economics play out in the financials. So when we look, you mentioned the gap between gross and net loss ratio. When -- in Q1, most of the economics will still be on the 2022 treaty. So we'll still continue to see a high underlying net loss ratio there because of that mismatch between loss retention and premium retention. But by the fourth quarter of 2023, we're expecting it to be much, much closer. So I would say it's probably going to be in the 200-plus percent range in the first quarter. But by the end of 2023, it'll be down below 100%, along with the gross loss ratio.

Operator

The next question is from the line of Tommy McJoynt with KBW.

Thomas Patrick McJoynt-Griffith

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

So I do appreciate some of the increased disclosure at the segment level. If you could sum it up just what is the mix, I guess, of business either on revenue or earnings that is not subject to this loss ratio volatility? And if you could sort of describe that in terms of either 2022 or 2023? And then just thinking about longer term, how you see that mix shifting?

Stewart Andrew Ellis
CFO & Treasurer

Yes, absolutely. Thanks, Tommy, for the question. I think I'll start by just giving a little bit of context in terms of how we think about the business. So increasingly, we're viewing the Hippo customer experience, which we view as differentiated in the market is not limited to people who are covered by Hippo policy, but also will include people who buy a policy from a third-party carrier through Hippo as an agent. And so if you -- and I appreciate you mentioning the supplemental package, where we talk about 2023 guidance, this is all laid out in that package. So I'd encourage everybody to take a look at it.

But if you classify the components of our business by business model, they fall into 3 basic categories. There's recurring fee-based revenue with no underwriting exposure. We're calling that services, and that's about 40% of our expected 2023 total generated premium. The second bucket is a business that's primarily fee-based revenue that has limited exposure to underwriting results. That's our Spinnaker program business, where we support other MGAs by renting our balance sheet to them in exchange for fees. That's about 30% of our expected 2023 total generated premium. And the final bucket, which is the Hippo Home Insurance program, where the economics, as we've seen are primarily based on the underwriting results that will be about 30% of our 2023 total generated premium.

Richard Lyn McCathron
President, CEO & Director

Yes, Tommy, if I could add one more thing, I actually think this helps the procurement of generation better customers. When we actually have options that don't necessarily fit our underwriting appetite or the way we think of customers who truly want to partner to help them protect all aspects of their home. We still have the ability to meet their needs and place them with one of our partner carriers that might very well have a different underwriting appetite and a different business model. Now those customers over time, we still can provide Hippo Home Services to in Hippo Home Care. So it really does create an environment, where the Hippo experience is a combination of Hippo Home placed policies, third-party policies, including cross-sell and the ability to generate more customers that we participate in Hippo Home Care.

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

And Stewart, if you could just clarify us, those figures want to -- on a TGP basis. As you think about just kind of the earnings, I guess, contribution mix of those, do those ratios or percentages hold generally true?

Stewart Andrew Ellis
CFO & Treasurer

As we look at 2023, I think the answer to that question is different in 2023 than it would be over the long-term because right now, Hippo is not profitable as a business, and that is primarily, as we've discussed on previous calls because we're still working on improving the loss ratio. A lot of the activity that needs to be undertaken to improve loss rate, in particular, the rate plans are largely underway and we feel very confident that we're on the right track there. But in 2023, the services business, we expect that to lose money, but that's a good idea for us from an economic standpoint because the underlying business there is profitable and so most of the losses are going to be coming from growth-oriented expenses. The insurance-as-a-service program business is actually expected to be profitable in 2023. And the bulk of the losses for the overall Hippo consolidated business is going to come from the Hippo Insurance program. But as I said, those we feel very confident are shrinking over time as the loss ratio comes down. So we can talk -- there's more detail in the supplemental package that we released today on the guidance there. But yes, today, it's not the same as what I expect the long-term contribution to be because I think long term, each of these businesses are going to be profitable.

Operator

The next question is from the line of Yaron Kinar with Jefferies.

Andrew E. Andersen
Jefferies LLC, Research Division

This is Andrew on for Yaron. Can you help us think about how the company views its rate adequacy and pricing needs for '23?

Richard Lyn McCathron
President, CEO & Director

Andrew, I think this is a great question for Chris to take. So Chris, do you want to answer that for Andrew?

Christopher Donahue
Chief Underwriting Officer

Great. Thanks, Andrew, for the question. Yes, the rate plan that we have set forth in 2022 and 2023 is our organization's top priority. We're continuing to improve the overall rate level, but also improve our ability to align our rate to risk, so we can price risk appropriately in the marketplace. The majority of the efforts that we need to achieve our goal of the 65 loss ratio ultimately, have been put in place and are underway. In 2022, we already achieved about a 20% written rate increase. We made 64 filings in 28 states. The benefit of those rate increases have started to earn in and will continue to impact 2022, 2023 and 2024 going forward. In 2023, we'll take increases in the high teens. So we'll do pretty much the same thing that we accomplished in 2022, and we'll make the 73 filings in 31 states. We've already taken significant ground in executing that strategy with 85% of the filings necessary to achieve that, about having already been submitted to Department of Insurance. These filings will also significantly impact 2023, but we'll continue to see the compounded effect of the last 2 years of rate earning in through 2024 and see that impact significantly the loss ratio and the loss results that we see going forward.

Richard Lyn McCathron
President, CEO & Director

Yes, Andrew, I think this explanation is very much aligned with my opening comments related to reinsurance and the bullish nature that the reinsurers have because the reinsurers forecast out all of these actions already taken take everything up to current rate level, say, both exposure and rate changes into account and identify what both our medium and long-term loss ratio is going to be. So we're really pleased at the activity that the underwriting actuarial team have already done for 2023.

Andrew E. Andersen
Jefferies LLC, Research Division

Great. That's very helpful. And as we think about ongoing underlying improvement year, is the correct comp, the 66% in '22 relative to the 67% in '21. So just given the rate actions over the last year and perhaps into '23 as well, should we think about the pace of that improvement accelerating?

Richard Lyn McCathron
President, CEO & Director

Not totally following your question.

Andrew E. Andersen
Jefferies LLC, Research Division

If you look at the -- sure. As we think about the 66% gross loss ratio, excluding cat and PYD, it was about 100 basis points year-over-year improvement from 67% in '21. So just given the pace of rate filings, would -- should we expect a stronger improvement in underlying loss ratio in '23?

Richard Lyn McCathron
President, CEO & Director

Yes, that's a really good question. Yes, as you continue to -- as these rate actions continue to work themselves into the portfolio, rate actions that we've taken generally do help the underlying loss ratio pretty significantly. This is why we have great confidence that we're going to achieve our goals of cash flow positivity by the end of 2024. We are very much on track and feel very good about what we presented during our Investor Day that we're going to get there.

Stewart Andrew Ellis
CFO & Treasurer

I'd also love to just add a little bit of color to that question. I think what you're seeing in the results despite all the rate action, the question is basically, why has the non-PCS core loss ratio only come down just a little bit? And I think what's not easy to see if you don't live this every day in the business is that, we've actually been lowering through geographic diversification, the overall exposure to cat risk in the portfolio. And so if you have a home that's in a state that has very low cat risk, nearly all of the premium is related to the attritional loss. If you have a home that has been a very high cat risk part of the country and a substantial portion of that premium is paying for that cat risk. And so as we bring the overall cat exposure in the portfolio down, you would otherwise expect to see the non-PCS core loss ratio increase, because more of the premium would be going to pay for those attritional losses. The fact that we're bringing it down is a function of the rate plan and underwriting improvements that we've made over the past year.

Richard Lyn McCathron
President, CEO & Director

Yes, Andrew. And the last thing that I would say on this topic is, really understanding the way we categorize the category of losses. So we have 2 categories. We have PCS claims and all other. The all other is a combination of attritional and non-PCS weather. So there's still weather in that 62% or 67% whichever particular number you want to refer to. But it's non-PCS weather, if that's helpful.

You can also have a look that core loss ratio -- if you just look at Q4, the core non-PCS loss ratio was 54%. So the 66% is an average over the course of the year, but we are seeing a positive trend progressively throughout the year.

Operator

The next question comes from the line of Alex Scott with Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First thing I had for you guys is just on the updated reinsurance program. Could you help us think through the loss participation that's still remaining? I saw in the slides that it looks like it's only modestly higher than the premium you're retaining in a base case, so that's good. What kind of variability could we have around that? Like how much loss participation do you still have? How does it compare to what you did have? Like any way to help bring them all that for us?

Stewart Andrew Ellis
CFO & Treasurer

Alex. This is Stewart. I'll start and then if Rick wants to add, happy to ask him to supplement this. The loss participation features in the 2023 treaty, they're still there, but we're being paid for taking some of that risk ourselves. So that's what we said earlier about the higher retained premium. In general, the corridors we have are narrower than in the 2022 treaty. So there's less variability from the corridors and they attach at rates that are more favorable to Hippo than they did in 2022. So at our expected loss ratio, I'm expecting them to be a much smaller percentage of our overall economics in 2023 than they were in 2022.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. That's helpful. And then the comment that there's no changes to required capital, could you help us think through that as well? I mean, there is a part of that looks at it and says, you're retaining so much more, almost 4x more than you were before. And like I get that you sort of put more tail risk in place, but could you unpack that a little bit more first and help us understand how -- I mean it seems too good to be true that you [have] much more premium and it doesn't require more capital?

Richard Lyn McCathron
President, CEO & Director

Yes. So I think there's 2 things going on there. The actual underlying risk retained is not 4x what it was, because of the lost participation features in the 2022 treaty. So the risk retention is modestly higher, but not 4x higher, even though the retained premium is closer to 4x higher. So this is an economic shift in the way we're thinking about the treaty, but also I think that reflects, candidly, the substantial improvement in expected loss ratio in 2023 relative to 2022. The other...

Stewart Andrew Ellis
CFO & Treasurer

Yes, there's one other thing, too, Alex, to keep in mind is as we continue to geographically diversify, the exposure from catastrophes has actually come down. And when you calculate all of the PMLs versus the exposure, we actually look like we have less exposure to weather, in particular states or other large events like fire. So the diversification on the geographical exposure has also helped the total exposure to the company.

Richard Lyn McCathron
President, CEO & Director

Yes. And then -- sorry, the one final point I wanted to make was in 2022, we were such heavy buyers of reinsurance. And as we looked at the AM Best BCAR score, and we're navigating the sort of maintenance of our A and Best A minus rating, the calculation was actually penalizing us with a credit risk penalty on the reinsurance that we were buying. And so as we actually increased our participation and bought less quota share reinsurance, we actually get capital relief from A.M. Best in the BCAR model. And so we

were paying a heavy penalty in that framework because we were such a heavy utilizer of reinsurance. Now we sort of found the sweet spot, where we're matching up the benefit we get from quota share reinsurance and the exposure that we're taking. So it's a -- we can go into more detail on that, if you have further questions. But it's a function of both the exposure and the way we're heading off the risk.

Alexander Scott

Goldman Sachs Group, Inc., Research Division

Got it. That's helpful. And then maybe one more quick one for me, a little bit at a left the field. I mean, how would you think about earthquake exposure, just give me a little more concentrated in California, it seems like earthquake activities off a bid just in general globally. So I'm just trying to think through -- I get that your policy is part uncover, but they may cover like the secondary fires that it causes any way for us to think through like how your reinsurance program would help out. Was that kind of a risk?

Richard Lyn McCathron

President, CEO & Director

Yes, Alex. I think -- I mean, clearly, you're 100% right. Quake is not covered, but fire following is and fire following would be subject to any type of other exposure we have in the portfolio. So we don't think it's a significant exposure for us. Chris, anything you want to add?

Christopher Donahue

Chief Underwriting Officer

No, it is covered within the reinsurance broker, but it's definitely not a peak driver peril of risk for us, and we feel it's managed within our portfolio.

Operator

Our last question is from the line of Pablo Singzon with JPMorgan.

Pablo Augusto Serrano Singzon

JPMorgan Chase & Co, Research Division

The first one I had was just on the opportunity in the homebuilders market. Can you give a sense of the market concentration there below the top 10? I think your reference it's half of the market. But is the top 11 to 20 a good chunk of the 50%? Or is it more of this evenly distributed? And then as a follow-on to that, could you sort of describe your sales organization, how are you thinking about offering your services to the 50% of the market there?

Richard Lyn McCathron

President, CEO & Director

Yes. I think it's something to keep in mind, and this is a question that has come up in the past, which is if there are slowing housing starts or reduced housing starts, how much does that impact our growth in that particular channel? And whether your top 10, 11 to 20 or the long -- what we call long tail builders, the more regional or local builders for the purposes of the builder agency that we established. Hippo is such a small percentage of the total compared to the total that we still believe we're right at early stages of maximizing the sales funnel with those particular builders. Even in down and depressed years, there's still over 1 million housing starts, and we are a small percentage of those. So the vast majority of the homes being built or being built by the long tail builders, not the top 10 builders. So it really gives us an opportunity to maximize growth in that particular channel over time.

Now when we think about our sales organization, our sales organization as it relates to home builders is not a B2C effort for the most part. It generally is working with the builders and creating partnerships in which they believe that the technology that we've built at Hippo allows for quick real-time quoting on a house that has not even been built yet. And that is a significant advantage to what we've built in the builder channel, because if you go to a traditional agency and you're looking to build -- or excuse me, to ensure a house that hasn't been built yet. What is the address of that house? Is it Lot 7, Section 6, it's very difficult. And what we do is we actually get the data files on every model of the builders we partner. And that makes the transaction close quicker. And at the end of the day, that's what everybody wants. The consumer wants to get into their new dream house, the builder wants to close the transaction, and we facilitate that in a meaningful way.

Pablo Augusto Serrano Singzon

JPMorgan Chase & Co, Research Division

And then my second question was about the First Connect business. I was used to hear any context you can provide there? When did you set it up? And I guess, ultimately, how do you think it compares as an independent agency platform against alternatives out there, something of clusters and aggregators. And if you could go through sort of the revenue model, how you charge the services provide. But I guess just overall, how you think about that as an alternative versus what's out there for independent agents?

Richard Lyn McCathron
President, CEO & Director

Yes. So first of all, First Connect was an acquisition that we made a few years ago. So it wasn't something that we started from scratch. Now what we have done since our acquisition of First Connect is, we've invested Hippo technology into the infrastructure that First Connect had. So Hippo has built tools for independent agents and our internal salespeople to really accelerate the quote-to-bind process. And we felt it was appropriate to offer these same types of tools, not just for Hippo policies, but for non-Hippo policies to the network of independent insurance agents that utilize the First Connect platform. So it's not just a traditional aggregator. It's an aggregator with significant technology that helps agents streamline the quote-to-bind flow, and we monetize that through a commission split and other fees that we generate from other services that we're providing. So we think it's an important platform, and it utilizes the technology that we already have.

Operator

There are no additional questions waiting at this time. So I will turn the call over to Rick McCathron, CEO, for closing remarks.

Richard Lyn McCathron
President, CEO & Director

Thank you. I'm very excited and grateful for all of you of joining today. This was a fabulous quarter for Hippo and a fabulous year. We've made tremendous progress in a very short time frame. And we have strong conviction, more conviction than we've ever had that the metrics of the company are driving us towards cash flow positivity, while continuing to grow the business. So we're excited to be presenting at next quarter and look forward to sharing the news. Thank you, everybody.

Operator

That concludes today's call. Thank you for your participation. You may now disconnect your lines.

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