S&P Global
Market Intelligence

# Universal Insurance Holdings, Inc. NYSE:UVE

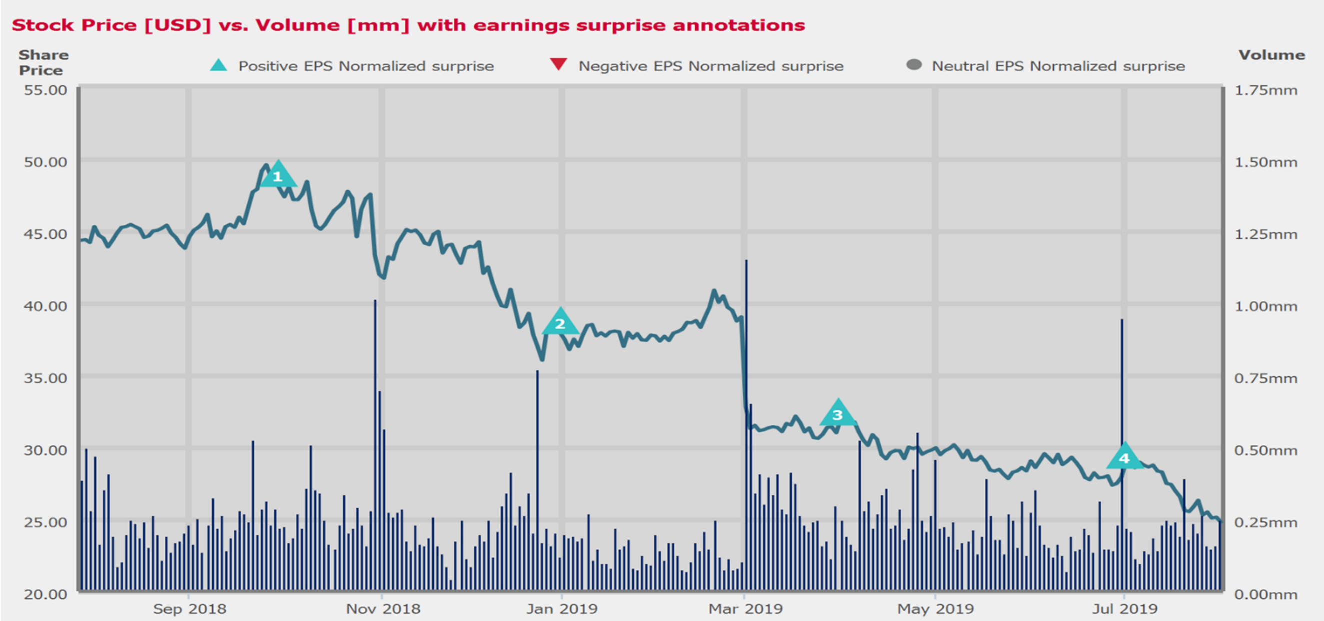
# FQ2 2019 Earnings Call Transcripts

## Thursday, August 01, 2019 12:30 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ2 2019- | | | -FQ3 2019- | -FY 2019- | -FY 2020- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| EPS Normalized | 1.00 | 1.05 | 5.00 | 0.47 | 2.25 | 2.85 |
| Revenue (mm) | 237.92 | 233.72 | (1.77 %) | 230.99 | 942.57 | 1045.94 |

Currency: USD
Consensus as of Jul-11-2019 9:12 PM GMT




| - EPS NORMALIZED - | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| FQ3 2018 | 1.00 | 1.08 | 8.00 % |
| FQ4 2018 | 0.06 | 0.13 | 116.67 % |
| FQ1 2019 | 0.98 | 1.00 | 2.04 % |
| FQ2 2019 | 1.00 | 1.05 | 5.00 % |

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# Call Participants

## EXECUTIVES

**Frank Crawford Wilcox**
*CFO & Principal Accounting Officer*

**Jon William Springer**
*President, Chief Risk Officer & Director*

**Rob Luther**
*VP of Corporate Strategy & Investor Relations*

**Stephen Joseph Donaghy**
*Chief Executive Officer*

## ANALYSTS

**Christopher Campbell**
*Keefe, Bruyette, & Woods, Inc., Research Division*

**Samir Khare**
*Capital Returns Management, LLC*

# Presentation

**Operator**

Good morning, ladies and gentlemen, and welcome to the UVE Second Quarter 2019 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to Rob Luther, Vice President of Corporate Strategy and Investor Relations.

**Rob Luther**
*VP of Corporate Strategy & Investor Relations*

Thank you, and good morning, everyone. Welcome to our discussion of our second quarter 2019 earnings results, which we reported yesterday. On the call with me today is Steve Donaghy, Chief Executive Officer; Jon Springer, President and Chief Risk Officer; and Frank Wilcox, Chief Financial Officer.

Before we begin, please note today's discussions may contain forward-looking statements and non-GAAP financial measures. Forward-looking statements involve assumptions, risks and uncertainties that could cause actual results to differ materially from those statements. For more information, please see the press release, our earnings presentation and UVE's SEC filings, all of which are available on the Investors section of our website at universalinsuranceholdings.com and on the SEC's website.

A reconciliation of non-GAAP financial measures to comparable GAAP measures included in the quarterly press release. With that, Steve, I'll turn it over to you.

**Stephen Joseph Donaghy**
*Chief Executive Officer*

Thank you, Rob, and good morning, everyone. Thank you for joining us today.

I want to begin by thanking our board for their vote of confidence in being named the new Chief Executive Officer, which was announced in mid-July. I am fortunate to have assisted Universal in arriving at this juncture, and I'm excited to continue our growth by executing against our strategic priorities.

Further, I would like to congratulate Sean Downes on his appointment as Executive Chairman. He, along with our seasoned management team, have enabled a seamless transition. His service over the past 20 years is marked by strong growth and creating a culture of success. I look forward to his support and that of our Board as we work together to continue to elevate ways in which we can better serve our consumers and create value for our shareholders.

Moving to our results. Yesterday, we reported our second quarter 2019 results, extending a strong first quarter into a solid second quarter and first half of 2019. For the first half of 2019, total revenue was up 17.2% to $470.3 million. Direct premiums written were up 5.6%, due in large part to strong growth outside of Florida. EPS was $2.22 on a GAAP basis and $2.05 on a non-GAAP adjusted basis for the first half of 2019. Our first half annualized return on average equity was 28.7%., book value per share grew 17.4%., and our pretax income margin was a strong 22.3% in the first half, all supported by premium volume, pricing, integrated services and our investment portfolio performance.

Turning to our continued progress on our strategic initiatives. We finalized our 2019 and 2020 reinsurance programs, and we're able to secure more catastrophe coverage than at any other point in the history of the company. We continue to proactively expand our addressable market in the second quarter with Universal Property becoming licensed in Wisconsin. And Universal Property and its direct-to-consumer distribution channel, Universal Direct, are off to a good start in Illinois where we began writing in the first quarter of this year.

Lastly, our digital insurance distribution channel, Clover, continued its expansion, becoming licensed in more than 15 states and added 5 additional carrier appointments across homeowners, auto, flood and E&S lines.

So overall, we continue to see positive momentum in the first half of 2019 across the company on our initiatives. In a moment, Jon will provide an update on our risk management initiatives. But first, let me now turn it over to Frank to walk through our financial results. Frank?

**Frank Crawford Wilcox**
*CFO & Principal Accounting Officer*

Thank you, Steve, and good morning, everyone. As a reminder, discussions today on adjusted operating income and adjusted EPS are on a non-GAAP basis and exclude impacts from unrealized and realized gains and losses on investments and extraordinary reinstatement premiums and related commissions. Adjusted operating income also excludes interest expense.

Total revenue grew 11.4% for the quarter and 17.2% for the first half of 2019, driven primarily by higher organic premium volume, pricing and our investment portfolio performance, partially offset by realized losses in our investment portfolio. Pretax income margin was 21.8% for the quarter and 22.3% for the first half of 2019, bolstered by our investment portfolio and integrated service businesses. EPS for the quarter was $1.08 on a GAAP basis and $1.05 on a non-GAAP basis -- non-GAAP adjusted EPS basis, and $2.22 and $2.05 for the first half of 2019, respectively.

These results reflect the positive momentum from premium growth and investment performance, but also include an increased core booked loss ratio in 2019 when compared to 2018 to bolster our reserve position, a lower benefit from the integrated services as prior year -- year's claims conclude and a higher effective tax rate. In addition, the EPS decline relative to 2018 was also driven by a pretax $6.5 million nonrecurring benefit in policy acquisition costs in the second quarter of 2018, which accounted for approximately $0.13 of GAAP and non-GAAP adjusted EPS for the second quarter of 2018 and the first half of 2018. Annualized return on average equity was 28.7% for the first half of 2019, while book value per share grew 17.4% year-over-year.

Turning to our underwriting results. Premiums in force grew to approximately $1.2 billion, an increase of 9.2% from the prior year. Direct premiums earned were up 10.6% for the quarter, led by growth of 33.2% in other states and 7.1% in Florida. For the first half of 2019, direct premiums earned were up 11.6%, led by growth of 33.9% in other states and 8.3% in Florida. Underlying growth in Florida was tempered by more disciplined underwriting guidelines that were put in place in 2019, while other states geographic expansion continues to be strong.

Ceded premiums earned excluding reinstatement premium, as a percent of direct premium earned, increased 60 basis points to 30.3% for the quarter and declined 30 basis points to 29.7% for the first half of 2019.

On the expense side, the combined ratio increased 9.7 points for the quarter to 86.9% and 10.2 points for the first half of 2019 to 87.1%, driven by increased losses in connection with the diversified growth in the company's underlying business, increased core booked loss ratio to bolster reserves, and a reduced benefit from our claims adjusting business, in addition to an increase in our expense ratio as set forth in the following.

The expense ratio increased 2.5 points for the quarter to 33%, driven by a 3.6 point increase in the policy acquisition cost ratio to 21%, partially offset by a 1.1 point improvement in the other operating expense ratio to 12%. For the first half of 2019, the expense ratio increased by 50 basis points to 33.2%, driven by a 1.8-point increase in the policy acquisition cost ratio to 20.9%, partially offset by a 1.3-point improvement in the other operating expense ratio to 12.3%.

The increase in policy acquisition costs for the quarter and the first half of 2019 relative to 2018 was due to the nonrecurring benefit of $6.5 million recorded in the second quarter of 2018 related to a refund of prior year premium taxes as a result of a settlement with the Florida Department of Revenue. Excluding the nonrecurring benefit in the prior year comparison, the expense ratio for the second quarter would have improved 90 basis points and 1.2 points for the first half of 2019 in comparison to the same periods in 2018 due to scale benefits and reduced executive compensation. We now expect the expense ratio for the full year to be between 33% and 35%.

The net loss and loss adjustment expense ratio increased 7.2% -- points for the quarter to 53.9% and 9.7 points for the first half of 2019 to 53.9%. Quarterly and the first half of 2019 drivers include weather events in excess of plan of $2 million or 1 point for the quarter was related to a series of wind events in the southeastern states. For the first half of 2019, weather events in excess of plan were $7 million or 1.7 points.

Prior year reserve development of $670,000 or 30 basis points was recorded for the quarter, and $485,000 or 10 basis points was recorded for the first half of 2019 primarily related to increased net losses in LAE for Hurricane Matthew. For comparison, unfavorable prior year reserve development included $2.3 million or 1.2 points in the second quarter of 2018 and $2.3 million or 60 basis points for the first half of 2018. All other net losses and LAE of $110.6 million or 52.6 points for the quarter, and $218.9 million or 52.1 points for the first half of 2019 includes diversified growth in the company's underlying business, an increase in our estimated losses to bolster reserves and a reduced benefit from our adjusting business as prior year's claims conclude.

Turning to services. Total services revenue increased 5.3% to $13.8 million for the quarter and 4.1% to $26 million for the first half of 2019, driven by commission revenue earned on ceded premiums by our reinsurance intermediary, Blue Atlantic, and an increase in MA policy fees related to new and renewal policy volume.

On our investment portfolio, net investment income increased 28.1% to $7.4 million for the quarter and 47.1% to $15.6 million in the first half of 2019 due to higher interest rates compared to the prior year's asset mix as well as higher average levels of invested assets. Yields from the fixed income portfolio are dependent on future market forces, monetary and interest rate policy from the Federal Reserve.

Realized losses for the quarter and in the first half of 2019 were the result of liquidating underperforming equity securities, partially offset by realized gains on our real estate portfolio. Unrealized gains were driven by market fluctuations in equity securities, resulting in a favorable outcome for the quarter and the first half of 2019.

The effective tax rate for the second quarter was 26.8% and 26% for the first half of 2019, an increase of 2 points over the prior year's quarter and 2.3 points over the prior year's first half. These increases were largely due to lower net credits for discrete items in both the first and second quarters of 2019 compared to 2018. For 2019, we continue to expect an effective tax rate of approximately 27% before discrete items.

In regards to capital deployment, during the second quarter, the company repurchased approximately 486,000 shares at an aggregate cost of $14.1 million. For the first half of 2019, the company repurchased approximately 806,000 shares at an average cost of $24.2 million. The company's current share repurchase authorization program has $30.3 million remaining as of June 30, 2019, and runs through December 31, 2020.

On June 5, 2019, the Board of Directors of the company declared a quarterly cash dividend of $0.16 per share, which was paid on July 17, 2019, to shareholders of record as of the close of business on July 3, 2019.

Let me now turn it over to Jon to walk through some additional specifics.

**Jon William Springer**
*President, Chief Risk Officer & Director*

Thank you, Frank, and good morning, everyone. I would like to start with some additional color on prior year's development and first and second quarter weather events. And I'll touch on our reinsurance program placed at 6 1, and will conclude with some parting thoughts on our risk management initiatives and associated market dynamics.

On prior year developments, we continue to experience new claims reported in the second quarter on Hurricane Irma, albeit at a slower clip than prior quarters. As of 6/30, We have received over 92,000 Irma claims in total, with approximately 5,500 remaining open. In evaluating Irma as of 6/30, we elected to increase Hurricane Irma's total gross loss to a total of $1.055 billion. On a net basis, there is 0 impact to Universal from a loss perspective and minimal impact from a reinstatement premium standpoint.

At this point in the life cycle of Hurricane Irma, the vast majority of any loss development will be recovered from the Florida Hurricane Catastrophe fund. For clarity purposes, we began the 2017 hurricane season, the year Irma occurred, with $1.87 billion of limit available to UPCIC from the FHCF. And we have only billed $104 million to date, leaving approximately $1.760 billion of limit still available.

In regard to Hurricanes Matthew and Florence, we elected to slightly increase the total gross losses to $46.5 million and $50 million respectively. Hurricane Michael remains unchanged at $350 million. On a net basis, Hurricane Matthew was the primary driver of the $670,000 or 30 basis points impact in the quarter, with Florence and Michael resulting in no impact.

In regards to first and second quarter weather events, for the hailstorm in Brevard County, Florida in Q1 as expected, we received additional claims related to this event since the end of Q1, of which approximately 80% have been closed with incurred losses of approximately $4.7 million as of 6/30, which is well within our plan for this event.

When looking at the weather events that took place nationally in Q2, we were only exposed to roughly half of the events due to our geographic business footprint. The elections add an additional $2 million beyond plan for second quarter weather events, was largely to building conservatism with 2 April wind hail events in southeastern states including Florida seeing the most claims incurred to date.

As a reinsurance update, we won't go into too much detail here as we've already disseminated the results of our program in our press release and 8-K on 5/31 with an effective date of June 1. But as Steve mentioned earlier, we were able to secure more catastrophe coverage than at any other point in Universal's history, with the top level of UPCIC's reinsurance tower providing coverage to beyond a 1 in 300 year event. The cost to us of our reinsurance program is approximately 33.3% of estimated direct earned premium for the 12-month treaty period. This compares to 31.2% at this time last year, reflecting a 6.7% year-over-year increase as we previously disclosed. Given recent loss experience and the evolving view of Florida risk, we see the pricing levels as reasonable for this treaty period.

On our risk management initiatives and market dynamics, with all of the above being said, in 2019, we have taken some very focused steps in solidifying our position for the future, including taking rate, providing new underwriting guidelines and increasing our loss pick to build an incremental reserve position.

First, on taking rate. We have a series of rate change approvals that are working their way through the book. In April, new business in Florida rate increases became effective. And in May, renewal business rate increases became effective, including high single-digit rate increases in certain territories. We also have recently seen double-digit rate increases effective in Minnesota and Pennsylvania in the first quarter and high single-digit increases effective in the second quarter in Massachusetts and Georgia. With reinsurance pricing hardening for this treaty period coupled with AOB reform, which we think is a positive development but need to build more history on and price competitiveness considerations, we're continually evaluating what is appropriate as we move forward on rate. But our latest rate increases have just become effective, which will help in the near term.

Secondly, on adjusting our underwriting guidelines. Our second area of focus in 2019 has been adjusting the underwriting guidelines to improve our risk profile. We have taken prudent steps to mitigate and identify new trends in our book, and we'll continue to do so.

Lastly, and most importantly, on adjusting our [loss pick]. Our third focus area in 2019 relates to our initial loss pick increase for accident year 2019 by 4 points to a full 37% of gross earned premium. Absent our 2 first areas I mentioned, if you just look at our third focus area in a vacuum, we are accruing approximately $50 million in incremental loss reserves booked on a run rate basis in 2019, all else being equal. To be clear, this is absent the additive effect of putting on business under new underwriting guidelines in 2019 as well as at an increased rate, which creates a positive compounding effect.

Now when you look at these 3 focus areas together, taking rate, rolling out new underwriting guidelines and accruing incremental additional loss reserves, and couple those 3 focus areas with our continuation of subrogation recovery and evaluating positive language changes on AOB reform, this all puts Universal on a focused solid foundation going forward.

With that, I'd like to turn it back to Rob.

**Rob Luther**
*VP of Corporate Strategy & Investor Relations*
Thanks, Jon. I'd like to ask the operator to now open the line for questions.

# Question and Answer

**Operator**

[Operator Instructions] Our first question comes from Chris Campbell.

**Christopher Campbell**
*Keefe, Bruyette, & Woods, Inc., Research Division*

congrats on the quarter.

**Stephen Joseph Donaghy**
*Chief Executive Officer*

thanks, Chris.

**Christopher Campbell**
*Keefe, Bruyette, & Woods, Inc., Research Division*

If you -- just a few -- like I'll start off with a few reinsurance questions. I guess out of the 98 million, it looked like there was less than 1 million net. So I guess and it sounds like most of that is going to the cat fund. So how much private market capacity do you still have remaining in the 2017 tower? And then how much within that, how much cover do you have that can cover like loss adjustment expenses?

**Jon William Springer**
*President, Chief Risk Officer & Director*

Thanks, Chris. This is Jon. So we have enough available -- open market capacity available for this loss to develop several hundred more million before we would ever be exposed to an additional dollar of net loss. And I'm sorry, what was the second part of that question?

**Christopher Campbell**
*Keefe, Bruyette, & Woods, Inc., Research Division*

And then, like, how much coverage do because they have the LAE cap within the cat fund, so that's spilled over to the private market? So I mean I guess how much more like theoretical LAE coverage would you have in the private market layer?

**Jon William Springer**
*President, Chief Risk Officer & Director*

That's a difficult one to answer, but one of the things that we've talked about on prior calls is our strategy in handling Irma claims and the way we went about structuring the loss adjustment expense by front-loading a lot of those costs and setting up counsel at flat fees. So we're in a position now where a lot of those claims are finally reaching settlement and the incremental increase is only indemnity. There is no additional loss adjustment expenses associated with bringing these claims to closure. So that puts us in a good position based upon the initial strategy of front-loading the LAE.

**Christopher Campbell**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Got it, and that's what you had mentioned in your script about having, like -- so the indemnity would be covered under that 1.76 billion of limit you guys still have in the '17 tower for the cat fund, right?

**Jon William Springer**
*President, Chief Risk Officer & Director*

That's correct. The FHCF will reimburse us for the vast majority of the indemnity, and then, of course, an additional 5% of any indemnity that they pay.

**Christopher Campbell**

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

Okay, great. And then just -- could you give us a little color? When were rates up? A lot of program changes. What were rates up on a risk-adjusted basis for the program? And then how do you think reinsurers are going to react to, like, the ongoing creep for like your multiyear pricing?

**Jon William Springer**
*President, Chief Risk Officer & Director*

Well, I'll start with the second part. I think in terms of the ongoing creep as we just talked about, the majority of this portion of the event is going to be borne by the Florida Hurricane Catastrophe fund. So not a lot of this additional development is going to be paid by open market reinsurer. And I think as I'm sure, most companies have had some very open and honest discussions with their reinsurance partners. So they're well aware of what it's going to take to bring Hurricane Irma to final closure. So I'm not too concerned with our reinsurance partners reaction from that standpoint.

In terms of risk-adjusted rate, I mean, we're not going to get into specifics from one layer to another. I mentioned in my opening remarks, what's most important, we believe, is what percent of our gross earned premium are we spending to [buy] the reinsurance tower that we purchased. And that's right at 33.3% this year, which is up from just a little over 31 at this time last year.

**Christopher Campbell**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. Got it, that's very helpful.

And so like I noticed, the reserves, not a lot of development, but you do have the higher loss picks. So you didn't see -- you guys see any like uptick in accelerated AOB litigation activity? Looking at one of your peers, they took like a $7 million reserve charge for that. So just wondering -- and every company's experience is different obviously. I'm not asking you to comment on their experience. But just -- did you guys see like an elevated increase in claims?

**Stephen Joseph Donaghy**
*Chief Executive Officer*

Chris, this is Steve. Yes, we have seen an increase in the AOBs filed to date. We are optimistic about the AOB legislation and the future impact that is going to have on our operations and cost.

And I think another key point for us is that with the size and structure of our claims organization that's been built over years, we very quickly can respond to increases in influxes of various types of claims and requests from our insurance. So it puts us in a position to deal with things in a quicker fashion, I feel. So we're positioned well. We've taken no charge as a result of the uptick, and we will deal with each claim on a one-by-one basis.

**Christopher Campbell**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Got it. And then just with the reinsurance rate increases, right, I know you're not going to factor in AOB reform. So what are your plans in terms of like a Florida rate filing? I know Florida lets you do like an accelerated rate filing once you get all the reinsurance paper work completed. Do you guys have a plan to take like to accelerate your annual review and try to take rates earlier?

**Jon William Springer**
*President, Chief Risk Officer & Director*

No. As we mentioned in the opening remarks, our most recent Florida rate filing just went into effect here a couple of months ago. So we're going to let that one play out along with letting some water pass under the bridge on this new AOB law and put ourselves in a position to make a filing with some actual data towards the end of 2019.

**Christopher Campbell**

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

Got it, got it. And then a question on the balance sheet, reinsurance recover -- the reinsurance recoverable is $331 million, but the loss reserves are only $288 million. So that would imply like kind of net negative reserves. So I guess how should we think about that?

**Frank Crawford Wilcox**
*CFO & Principal Accounting Officer*

Yes, Chris. So the recoverable includes both recoverables on paid and unpaid losses. So if you -- when you look at our 10-Q filing, and you look at our insurance operations footnote, you'll see a roll forward there. And you'll see the amount of recoverable that is for unpaid balances. So the -- and there's also a footnote for reinsurance, which has the components of that recoverable. So you'll get your answer by looking at that footnote.

**Christopher Campbell**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. So I can get that from the 10-Q then, okay. And then a few questions for Steve, so I guess, just given the reserve -- the reserve challenges you guys had last year, will your appointment, is that going to change the cadence of that reserve review process? Would you do that earlier than 4Q '19?

**Stephen Joseph Donaghy**
*Chief Executive Officer*

No, Chris, we are going to begin our reserve analysis as we typically have in past years, with a review at the end of Q3 and then a follow-up review at the end of the year. It is a very thoughtful process that has served us well, and we will continue on that same vein. I don't think there would have been an appropriate amount of time to rush something. And as we typically are, we're trying to be very thoughtful about these. And as you know with the way we've built a few different levels of conservatism into our reserves this year, we feel optimistic as we go into the rest of the year.

**Christopher Campbell**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay, great. And then just one last one for you, Steve, should we expect any changes in your approach versus Sean's going forward?

**Stephen Joseph Donaghy**
*Chief Executive Officer*

Yes, that's a good question, Chris. I think there's going to be some variations in the approach, but I would expect the pillars of how we've gotten this company into such a great position with no debt on our balance sheet. Organic growth, really conservative reinsurance with a lot of partners we've been doing business with for 20-plus years. Now I expect the big things to stay the same, but I do expect there'll be some philosophical difference between Sean and I as there would between any 2 people probably in the universe. So mostly the same, but there'll be some nuance.

**Christopher Campbell**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Great. Well, thanks for all the answers. Best of luck in the third quarter.

**Stephen Joseph Donaghy**
*Chief Executive Officer*

Thanks, Chris. Have a great day.

**Operator**

[Operator Instructions] Our next question comes from Samir with Capital Returns Management.

**Samir Khare**
*Capital Returns Management, LLC*

Sorry if you guys covered this earlier, but what was the premiums through the directional inside and outside of Florida?

**Jon William Springer**
*President, Chief Risk Officer & Director*

Samir, last quarter, we brought on over 2,000 policies and 2.7 million in premium. We also expanded a lot of our additional carrier relationships. So in those numbers are some portion of nonrisk-bearing premium that's come into the gate as well.

**Samir Khare**
*Capital Returns Management, LLC*

Got it, okay. And then, do you want to talk about some of the partnerships or initiatives on the Clover platform new to the quarter?

**Jon William Springer**
*President, Chief Risk Officer & Director*

Not specifically, no, we have a lot of partners or people that are reaching out to us now based on the volume we've been writing. And our goal is to continue to execute against sales to consumers that come into our net, so that if Universal's the right solution, we'll push them. If another carrier is the right solution, we'll quickly move to them and sell somebody else's policy.

**Samir Khare**
*Capital Returns Management, LLC*

Okay, great. And sorry, that 2,000 policies you just cited, that was policies Universal wrote?

**Jon William Springer**
*President, Chief Risk Officer & Director*

That would be a combination of Universal and our partners.

**Samir Khare**
*Capital Returns Management, LLC*

Okay, got it. All right. And then I noted that you guys talked about the E&S business that you're writing there. And I was just wondering if whether any of that ends up on your balance sheet?

**Jon William Springer**
*President, Chief Risk Officer & Director*

No, none of that ends up on our balance sheet. And it is a policy that we write, when a consumer cannot get into an admitted carriers bucket, so to say.

**Samir Khare**
*Capital Returns Management, LLC*

Okay. Is that usually commercial? Or is it personal lines as well?

**Jon William Springer**
*President, Chief Risk Officer & Director*

No, all of our business in that platform so far, Chris, has been personal lines. Samir, sorry

**Samir Khare**
*Capital Returns Management, LLC*

I was just going to say . then Hurricane, Matt, you are surprised to hear that it's developed so much nearly 3 years later. Can you give us some detail as to what's going on there?

**Jon William Springer**
*President, Chief Risk Officer & Director*

Yes. It hasn't really developed all that much. As we disclosed I guess probably 2 years ago now, we had made a decision in exchange for negotiating something in the future. We commuted a very small portion of our catastrophe program. So what has transpired as the development has slightly crept into the commuted reinsurance, which we're now retaining net.

**Samir Khare**
*Capital Returns Management, LLC*

All right. I see. Okay. And then just the growth runway in Florida, you talked about being a bit more disciplined. Is that resulting in lower new business or lower retentions on your renewal business or both?

**Jon William Springer**
*President, Chief Risk Officer & Director*

It's a great question, Samir. Our retention has remained fairly consistent. So we feel really good about the retention. And with the organic business that we've always brought on traditionally, our agency force has responded very well to the changes we've made. And our goal is to continue them to achieve more of a distributed growth within the state of Florida. So as we made those underwriting changes pursuant to that, and after a lot of thoughtful consideration on where we were adjusting those underwriting guidelines we then went into the marketing department and ensure that we would be able to continue the growth that we've committed to in the past. And we feel pretty good as we sit here in August 1 in that regard.

**Samir Khare**
*Capital Returns Management, LLC*

Okay. So I guess the disciplined -- more disciplined approach that you're taking that you referred to earlier is really more about a more balanced portfolio within Florida?

**Jon William Springer**
*President, Chief Risk Officer & Director*

I think it's a combination of things that our actuaries have seen by analyzing our internal profitability model, various things that our claims adjusters and management have brought to the table. So as we gather and talk about underwriting. It's not one particular pillar of the company. It's a group conversation about what we should be bringing on, where we should be bringing that business on from and how can we increase the balance across the state. So it's a multi-pronged conversation that we feel pretty good about as we sit here right now.

**Samir Khare**
*Capital Returns Management, LLC*

Okay. And then, in any way, do you guys feel that you're reaching a saturation point in any of your subsidiaries in Florida? I mean you guys are the largest market share in Florida, by far.

**Jon William Springer**
*President, Chief Risk Officer & Director*

So now, Samir, I think there's a tremendous opportunity that continues in Florida. A lot of various people from across the country are moving quickly to Florida and other states due to the tax basis and other those things that we have here in Florida. So if we just continue at the penetration we have will continue growth in the state of Florida..

**Operator**

And I currently show no further questions at this time. I'd like to turn the call back over to Steve for closing remarks.

**Stephen Joseph Donaghy**
*Chief Executive Officer*

Thank you. In closing, I would like to thank our associates, consumers, agents and our stakeholders for their continued support of Universal. Have a great day.

**Operator**
Ladies and gentlemen, this concludes today's conference. Thank you for joining, and have a wonderful day.