Universal Insurance Holdings, Inc. NYSE:UVE

Earnings Call

Friday, July 28, 2023 3:00 PM GMT

Call Participants

EXECUTIVES

Arash Soleimani
Chief Strategy Officer

Frank Crawford Wilcox
Chief Financial Officer

Stephen Joseph Donaghy
CEO & Director

ANALYSTS

Jon Paul Newsome
Piper Sandler & Co., Research Division

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Universal Second Quarter 2023 Earnings Call. As a reminder, this conference is being recorded. I would now like to turn the conference over to Arash Soleimani, Chief Strategy Officer. Please go ahead.

Arash Soleimani
Chief Strategy Officer

Good morning. Thank you for joining us today. Welcome to our quarterly earnings call. On the call with me today are Steve Donaghy, Chief Executive Officer; and Frank Wilcox, Chief Financial Otter.

Before we begin, please note today's discussion 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 on Universal'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 is included in the quarterly press release and can also be found on Universal's website at universalinsuranceholdings.com.

With that, I'll turn the call over to Steve.

Stephen Joseph Donaghy
CEO & Director

Thanks, Arash. Good morning, everyone. Results were solid, including a 25.3% annualized adjusted return on common equity and 85.1% adjusted diluted earnings per share growth year-over-year. While it's still early days, we're encouraged by favorable claims and litigation trends that are beginning to emerge as a result of recent legislative reforms and give us optimism as we look forward to 2024 and beyond.

We continue to benefit from rate-driven premium growth and an improving spread of risk across our geographic footprint. I'm very proud of the reinsurance program we put together for the 2023, 2024 treaty year. Our programs, terms, conditions and coverage are consistent with the prior year, but we reduced our consolidated retention and our ceded premium ratio.

I'll turn it over to Frank to walk through our financial results. Frank?

Frank Crawford Wilcox
Chief Financial Officer

Thanks, Steve. Good morning. Adjusted diluted earnings per common share was $0.87, up from $0.47 in the prior year quarter. The increase mostly stems from higher underwriting income, net investment income and commission revenue. Core revenue of $337 million was up 11.7% year-over-year, with growth primarily stemming from higher net premiums earned, net investment income and commission revenue. Direct premiums written were $547.1 million, up 2.7% from the prior year quarter, including 0.8% growth in Florida and 13.6% growth in other states. Growth reflects rate increases, partially offset by lower policies in force.

Direct premiums earned were $463.3 million, up 8.1% from the prior year quarter, reflecting rate-driven direct premiums written growth over the last 12 months. Net premiums earned were $303.3 million, up 9.5% from the prior year quarter. The increase is primarily attributable to higher direct premiums earned and a lower ceded premium ratio.

The net combined ratio was 99.1%, down 1.8 points compared to the prior year quarter. The decrease reflects a lower net expense ratio, partially offset by a higher net loss ratio. The 73.8% net loss ratio was up 1.5 points compared to the prior year quarter, with the increase primarily attributable to higher unfavorable prior year reserve development, partially offset by a lower consolidated current accident year net loss ratio. The 25.3% net expense ratio improved by 3.3 points compared to the prior year quarter, primarily reflecting lower renewal commission rates paid to distribution partners.

During the second quarter, the company repurchased approximately 396,000 shares at an aggregate cost of $6.1 million. The company currently has $20.1 million of share repurchase authorization remaining. On July 20, 2023, the Board of Directors declared a quarterly cash dividend of $0.16 per share of common stock, payable on August 11, 2023, to shareholders of record as of the close of business on August 4, 2023.

With that, I'd like to ask the operator to open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Could you give us a little bit more details about the reserve development, and obviously, a lot of interest in what's going on in Florida and that surge in claims, at least the lawsuits that we saw around tort reform? And just more detail around that would be fantastic to just better understand how -- what the sources are and maybe how it may be more specific to Universal or more broadly back -- more broadly generated by [Florida] factors.

Stephen Joseph Donaghy
CEO & Director

Paul, this is Steve Donaghy. Thanks for checking in with us. Yes, I'll break down your question in 2 ways. First of all, regarding the prior year development, we have been working through the quarter on -- in the normal course of business, multiple commutations with our reinsurance partners and the FHCF in the state of Florida. So that drove a majority of the 13.8 number. So that's the explanation there.

Regarding the litigation in AOB, we changed our tune from cautiously optimistic to optimistic a quarter or 2 ago, and we continue to see that favorability in our numbers. Litigation is down considerably. AOB is down even more greatly. And one of the things that we don't really talk a lot about is from the legislation was passed in July of '21, we've seen an increase in notice of intent. And fortunately, due to our scale, we've got a great team of people that are attacking that particular area. So it gives us an opportunity to close claims, take care of our insured and keep the bad actors at bay, so to say. So we are not upset with an increase in that particular area, and we've seen benefit of eliminating litigation through that department. I'm glad to expand on any other areas that you'd like.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Curious if you're seeing -- there's a lot of news about litigation funding. I don't know if it's a factor of Florida broadly, but is that also having an impact in your area are you seeing of that nature?

Stephen Joseph Donaghy
CEO & Director

We've seen the litigation funding out there. We talked to some plaintiffs folks who speak to us candidly. And I think it is a market, it was certainly driving some behavior in Florida prior to the legislation passed at the end of last year. And again, I think there's markets for it, and it's probably moving more out of Florida, at least from the P&C side than coming into it at this point.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And then finally, maybe we could step back a little bit. I mean, outside of the tort reform, you folks were obviously, like everybody else trying to raise rates rapidly. How do you think that process has gone in terms of getting rates relative to what the underlying claim cost is running at? And does that generate -- could we see that in the next couple of quarters [if included] within the combined ratio? Or do you think that takes more time?

Stephen Joseph Donaghy
CEO & Director

Again, it's going to take another 12, 14 months for the legislation to affect our entire book. Our optimism is driven by the legislation and how we're seeing that impact our numbers. So even the numbers from Q1 to Q2, inbound litigation has decreased or continues to decrease, and we expect to see that trend throughout the year. That ultimately leads to a benefit. And as you know, rate is driven by the prior 12 months. This year, the state of Florida has asked us to contemplate the future impacts of legislation in our rate-making. And I think the state was very appropriately allowed us to take rate, both on the normal basis and then also through the reinsurance increases that we experienced prior to this year.

So -- and then the third piece of rate is always inflation. And as you know, inflation has been steady. We've seen some of our TIV numbers come under less duress in 2023. And I think that's a good indicator for the impact of insurance cost to Floridians going forward. So hopefully, there's benefit to all as we see -- congress sees.

Operator

We have a question from Nic Iacoviello with Dowling & Partners.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Just first off, would there have been any weather above plan in the current quarter under the prior disclosure?

Stephen Joseph Donaghy
CEO & Director

No, there's no weather above plan in Q2 outside of our loss pick. So we're -- no.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Was there any gross -- or what was the gross prior year development number? And I guess, can we also just further comment on the multiple commutations with reinsurance partners? I guess, I don't know how much you can talk about it, but I'm assuming that probably related to prior year coverage that you guys didn't think would attach and commuting it probably helped some of the capacity trade forward. I'm just trying to think of that in terms of what the gross reserves have been doing.

Stephen Joseph Donaghy
CEO & Director

Yes. We really don't -- from a go-forward basis, it's more just looking at what is in the commutation, how do we distribute that into the prior years, what is our responsibility, what are the reinsurers' responsibilities going forward. And again, with the strength of the quarter, it didn't affect overall performance, and I think it speaks well to our focus on reserves and also ensuring that our reinsurance partners are being adequately appreciated as we move forward as well.

Nicolas Iacoviello
Dowling & Partners Securities, LLC

Got it. This ties in with the prior year development. But I'm just thinking, right, because we've -- we're a couple of months removed from the reform, right? I'm wondering, have you seen any change in the trend of I guess, reopened claims from the prior accident years, just in the context of attorneys maybe looking at older claims that wouldn't be covered under the new reforms?

Stephen Joseph Donaghy
CEO & Director

No. The trends are not adverse to what we've seen in the past. So again, the legislation is having the impact desired. And as more and more of our book rolls under the new legislation of renewal, we receive that benefit. I think there was somewhat of a run-up maybe at the end of '22 or early in '23, but I think a lot of the people are looking to make a living elsewhere, fortunately. And we really don't see a driver of -- as compared to the past in reopens and others. And with our policies and with our claims handling, a reopened claim is handled expeditiously and we try and get the insured the best information they can, should they find something when a contract or somebody shows up. So it's a normal course of business.

Operator

And there are no other questions in the queue. I'd like to turn the call back to Steve Donaghy for closing comments.

Stephen Joseph Donaghy
CEO & Director

Thanks, Catherine. Appreciate it. I'd like to thank all of our associates, consumers, agents and our stakeholders. And in particular, our agents, we appreciate their assistance as we have continued to open up additional markets in Florida in the past 2 or 3 months, and we appreciate their continue to support -- continued support in particular, and for everyone in their continued support of Universal Insurance Holdings. Thanks very much, and have a great day.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.