S&P Capital IQ

CONTENTS

Universal Insurance Holdings, Inc. NYSE:UVE

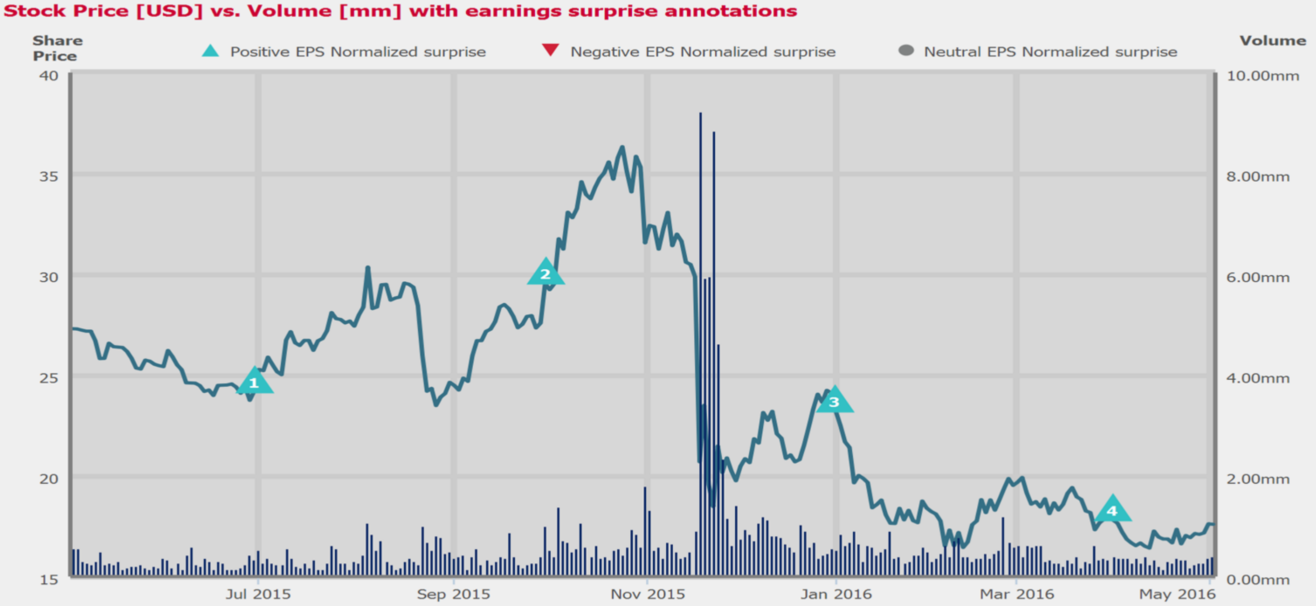
FQ2 2016 Earnings Call Transcripts

Thursday, July 28, 2016 8:45 PM GMT

S&P Capital IQ Estimates

	-FQ2 2016-			-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	0.81	0.94	▲16.05	2.89	3.20
Revenue (mm)	154.66	169.80	▲9.79	-	732.52

Currency: USD
Consensus as of Jul-13-2016 12:36 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	0.55	0.69	▲1 25.45 %
FQ3 2015	0.67	0.84	▲2 25.37 %
FQ4 2015	0.72	0.82	▲3 13.89 %
FQ1 2016	0.63	0.71	▲4 12.70 %

Call Participants

EXECUTIVES

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Jon W. Springer
President, Chief Risk Officer and Director

Matt Palmieri

Sean P. Downes
Chairman and Chief Executive Officer

ANALYSTS

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

Samir Khare
Capital Returns Management, LLC

ATTENDEES

Unknown Attendee

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Universal Insurance Holdings, Inc. Second Quarter 2016 Earnings Conference Call. [Operator Instructions] As a reminder, this call may be recorded.

I would now like to introduce your host for today's conference, Matt Palmieri, Senior Vice President. Sir, you may begin.

Matt Palmieri

Thank you, and good afternoon. Welcome to the Second Quarter 2016 Earnings Conference Call for Universal Insurance Holdings, Inc. With me today are Sean Downes, Chairman and Chief Executive Officer; Jon Springer, our Director, President and Chief Risk Officer; and Frank Wilcox, Chief Financial Officer.

Following Sean's opening remarks, Jon will provide an operational update, and Frank will review financial results for the second quarter of 2016. The call will then be reopened for questions.

Before we begin, please note that this presentation may contain forward-looking statements about our business and financial results.

Forward-looking statements reflect our current view of future events and are typically associated with the words such as believe, expect, anticipate and similar expressions.

We caution those listening, including investors, not to rely solely on forward-looking statements, as they can imply risks and uncertainties, some of which cannot be predicted or quantified, and future results can differ materially from our expectations.

We encourage you to carefully consider the risks described in our SEC filings with the SEC, which are available on the SEC's website or the SEC Filings section of our website.

We do not undertake any obligation to update or correct any forward-looking statements.

With that, I'd like to turn the presentation over to Sean Downes. Sean?

Sean P. Downes
Chairman and Chief Executive Officer

Thank you, Matt, and thank you for joining us this afternoon. I would like to begin by providing some highlights from the quarter, and then take a moment to review our strategy and growth initiatives. Jon will then discuss our operational highlights, and Frank will conclude by discussing our financial results.

As many of you saw in our press release, we delivered another record quarter of strong financial performance. In the second quarter, we achieved net income of $33.6 million, an increase of 36.2% over the same period last year, and diluted EPS of $0.94. Both net income and EPS were higher than any other quarter in the company's history, which we believe is a testament to our consistent operational execution, the merits of our growth strategy and the continued hard work and dedication by our more than 400 employees.

A key differentiator for Universal is our focus on organically driven growth. This approach is supporting our continued expansion geographically as well as deepening our penetration of the Florida market. With the recent addition of Alabama, Universal is now operating in 13 states, including Florida. In fact, thanks to our organic growth strategy and initiatives we have in place, we have seen a consistent increase in policy count and premium value in all states in which we operate over the past 2 years.

At Universal, our uncompromising focus on providing high-quality customer service continues to drive our success, and we continue to invest in our business areas, including agency relationships, underwriting, policy issuance, general administration and claims processing and settlement. We are always looking for ways to improve our customer experience and offer new, innovative solutions to simplify the process of purchasing homeowners' insurance, which we believe we have successfully accomplished with the launch of Universal Direct, our Direct-to-Consumer online platform for Universal Property & Casualty. Where we are still in the early stages of rolling out this exciting new product, we are already making positive headway.

In June, we announced that Universal Direct wrote its first homeowner's policy in Minnesota and in Alabama. We then announced recently that Universal Direct went live in South Carolina and in Indiana, bringing the total number of states in which it is available to 5. We intend to continue to build scale by adding additional states in the coming months.

We are proud to announce that we have written in excess of 100 policies, thus proving that this platform works and is another avenue for us to write organic profitable business. We have many joint venture opportunities available to us as we continue to evaluate the power of Universal Direct, and we are excited about the future for this new, unique platform.

Turning briefly to our reinsurance program, which Jon will discuss in more detail. As we announced in June, we completed the 2016/'17 reinsurance programs for our subsidiaries, UPCIC and APPCIC, a critical component of our broader risk management strategy. As we noted at the time, our main goal was to add additional conservatism to the UPCIC reinsurance program, which we believe we successfully achieved by reducing our retention for catastrophe losses involving states other than Florida to $5 million and securing over $100 million of additional multiyear catastrophe capacity.

We believe that our current reinsurance program and our focus on continuously reviewing our reinsurance coverage has allowed us to capitalize on attractive reinsurance pricing and terms, retain 100% of our profitable business and effectively manage risk.

Turning now to our capital allocation strategy. We remain committed to paying an attractive dividend, which we increased by $0.02 earlier this year. We also remain committed to delivering value to shareholders, and in June, our board authorized a $20 million share repurchase program. We will continue to pursue our balanced capital allocation approach, which includes dividends and share repurchases, while maintaining the flexibility to execute on our strategic priorities and position the company for sustainable long-term growth.

Our long-term growth strategy remains disciplined and focused. We continue to see opportunity to drive further organic growth, and we remain optimistic about Universal's long-term prospects as we look ahead toward the second half of the year and beyond.

With that, let me turn the call over to Jon.

Jon W. Springer
President, Chief Risk Officer and Director

Thank you, Sean. I would like to comment further on 2 items you briefly mentioned: recent growth trends in UPCIC and the successful completion of its June 1, 2016, reinsurance program.

First, regarding recent growth. As Sean mentioned, we continue to see positive growth in each and every one of our active states. For 2Q '16, from a pure policy count growth standpoint, our total portfolio experienced net growth of 17,000 policies, 8,500 of which came in Florida. Outside of Florida, Georgia and North Carolina led the way, each experiencing net growth of 2,000 policies in the quarter. It was also strong quarter for Pennsylvania and Indiana, with each growing net by more than 1,000 policies. It's important to remember that we continue with our strategy of adding business organically, one policy at a time.

As of 6/30/16, 13.7% of UPCIC's policies in-force and 18.6% of its insured values now reside outside of the state of Florida. These diversification ratios have improved in the past 3 months from 12.8% of policies and 17.3% of insured values.

Lastly, as announced in early June, the UPCIC reinsurance program was completed with an effective date of June 1, '16. The details were contained within the 8-K, but I want to further highlight a few important features. As Sean mentioned, the overarching theme of this year's reinsurance placement was conservatism, and we accomplished it in several different ways.

First was maintaining a $35 million catastrophe retention for Florida despite a nearly 9% year-over-year growth in Florida exposures. A $35 million pretax retention now represents less than 12% of UPCIC's current policyholders surplus versus 16.4% at this time last year.

Second, we increased the top of our vertical tower for a single Florida event to $2.4 billion. As of 6/30/16, this represents coverage to nearly a 1-in-250-year event as modeled by RMS RiskLink version 15.

Third, we successfully added in a new underlying catastrophe program that covers all states other than Florida. The new retention for states outside of Florida is now just $5 million.

Fourth, to further insulate ourselves from a potential industry-wide increase in reinsurance pricing in 2017/'18, we added over $100 million of additional multiyear capacity into our program, bringing the total capacity with secured pricing for 2017/'18 to over $300 million.

And lastly, all of these changes were accomplished while maintaining a consistent percent of projected premiums spent on catastrophe reinsurance.

With that, I'll now turn the discussion over to Frank Wilcox for our financial highlights.

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Thank you, Jon. As Sean stated, we achieved another record quarter with the highest net income and earnings per share in company history.

Net income for the second quarter of 2016 totaled $33.6 million, an increase of 36.2% compared to $24.7 million in 2015. Diluted EPS for the second quarter was $0.94, which was also up 36.2% from the same quarter in 2015.

Great adequate organic growth, combined with our decision to keep all of our profits by eliminating use of quota share reinsurance effective 2000 -- June 2015, were the primary drivers behind these results. Earned premiums, total revenues, net income and diluted EPS were higher than any other quarter in the company's history.

We've maintained our combined in the low 70 percentile range with 73.4% for the second quarter of 2016 compared to 73% for the same quarter in 2015. The increase in net earned premiums of $43.6 million or 38.6% for the second quarter compared to the same period in 2015 was the result of both an increase in direct earned premiums of $22 million, driven purely from organic growth and a net decrease in ceded earned premiums of $21.5 million. The net decrease in ceded earned premiums is comprised of the absence of ceded earned premiums to quota share reinsurers for the second quarter of 2016, partially offset by an increase in ceded earned premiums to catastrophe and excess of loss reinsurers due to an increase in exposures from organic growth.

Net investment income for the quarter of $2.1 million was $935,000 greater than the second quarter of 2015. Cash flows generated from operations has fueled the growth in the investment portfolio, which also reached an all-time high for the end of any quarter of $626.5 million as of June 30, 2016.

Total average investments were $574.2 million during the second quarter of 2016 compared to $454.4 million for the same period in 2015, an increase of 26.3%. We've increased yield by taking these new funds along with maturities and invested them in higher-yielding securities while maintaining high-credit quality. We also took the opportunity to realize $576,000 in gains from a sale of securities in the second quarter 2016 compared to $110,000 for the same period in 2015.

Commission revenue of $4.2 million for the quarter was up $736,000 as a result of overall changes in the structure of our reinsurance programs, including the amount of premiums paid for reinsurance and the type of reinsurance contracts used in each program. Policy fees of $4.8 million for the quarter were up $401,000 or 9.2% year-over-year from an increase in the number of policies written during the second quarter of 2016 compared to the same period in 2015.

Losses and LAE were $60.1 million for the 3 months ended June 30, 2016, compared to $39.7 million during the same period in 2015. A large portion of the $20.4 million increase in net losses in LAE was driven by the absence of losses in LAE ceded to quota share reinsurers during the quarter resulting from the elimination of quota share in June of 2015.

During the 3 months ended June 30, 2015, we ceded $10 million to quota share reinsurers, none in the current quarter. Our direct loss ratio for the second quarter of 2016 was 25.8%, which is in line with indications in the most recent actuarial study performed at the end of 2015.

General and administrative expenses were $54.8 million for the second quarter 2016 compared to $42.6 million for the same quarter in 2015, an increase of $12.2 million. The majority of the increase resulted from additional amortization of net deferred acquisition costs of $12.1 million, $7.1 million of which represents the absence of ceded commission from the elimination of quota share. The remaining increase in amortization of $5 million was driven by organic growth.

Our expense ratio, which is G&A as a percentage of net earned premiums, for the second quarter of 2016 was 35% compared to 37.8% for the same period in 2015. The effective income tax rate decreased to 38.7% in the second quarter of 2016 compared to 40.1% for the same period in 2015. Our effective tax rate has been decreasing from reductions in the amount of nondeductible executive compensation, lower state income taxes as we diversify outside of Florida and economies of scale.

Our balance sheet is strong and continues to grow with total assets reaching an all-time high of $1.1 billion, stockholders' equity reaching an all-time high of $351.4 million and book value per common share reaching an all-time high of $10.02 per share as of June 30, 2016.
At this point, I'd like to turn the call back to the operator.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Kevin Flansberry [ph], private investor.

Unknown Attendee

I was wondering if you could help me out. Could you tell me if your company had any exposure to the recent storm in Hawaii?

Sean P. Downes
Chairman and Chief Executive Officer

Yes, we do write business in Hawaii. But luckily, the -- the hurricane that was downgraded to a tropical storm on the 23rd, and the footprint of the storm really did not affect our portfolio at all. We've had 2 claims that have come in. Most of this was flash flooding. So we don't foresee us getting more claims really attributed to Darby.

Operator

Our next question comes from the line of Arash Soleimani of KBW.

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

Just a few questions here. First, can you just, probably for Frank, a couple of numbers questions. What were direct premiums earned in the quarter?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Direct premium earns were $226,819,000.

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

And was there any prior period development in the quarter on a GAAP basis?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

We're flat for the quarter. We had some redundancy in older accident years that we pushed up to 2015, but they were offsetting.

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

Okay. And was the number you mentioned before for the direct loss ratio, just want to make sure I have that right, was it 25.8?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

That's correct.

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

Okay, and do you have last year's number for comparison, 2Q '15?

Frank C. Wilcox

Chief Financial Officer and Principal Accounting Officer

2Q '15, I do. 25.6.

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

Okay. So my next question. So the rate online of your 2016/2017 reinsurance program, how does that compare to 2015/2016?

Jon W. Springer
President, Chief Risk Officer and Director

Thanks, Arash. This is Jon. We typically don't look at it as rate online across the whole program because, as I alluded to in my opening remarks, one of the things that we did this year was to maintain $35 million retention within the program. So you can sort of see some misleading results. If what you're getting at is how did we do year-over-year in terms of pricing changes, we can tell you that from a risk-adjusted, apples-to-apples basis, we feel we saved 8% year-over-year. To answer your question regarding the rate online, in 2015, our core cat tower, the rate online was 11.1%, and that same number for the core cat tower in 2016 was or is 10.7%. So you see some savings there, but you can also appreciate that we reinvested some of those savings into the additional conservatism I was talking about earlier.

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

On a similar note, how should we expect ceded premium ratio to trend over the next several quarters?

Jon W. Springer
President, Chief Risk Officer and Director

We would expect the ceded premium ratio to stabilize. It should continue in the low 30s subject, of course, to the seasonality of our direct written premium. As you know, and you can look at historically, the second quarter is our largest quarter from a direct written premium standpoint. So the ceded ratio will end up being a little bit lower in the second quarter and then slightly higher in the other 3 quarters depending upon the seasonality of the business.

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

And I know you touched on some of this in your prepared remarks, but I just wanted to, I guess, circle back on some of the key differences in coverage in your new reinsurance program versus your old. So it sounds like the retention that stayed the same, but you were able to secure more multiyear coverage and also reduce the retention for the states outside Florida. Are there any other, I guess, differences that you think would be helpful for investors to be aware of?

Jon W. Springer
President, Chief Risk Officer and Director

I think I touched on them and you reiterated, obviously, the entire other states cat program is new. So we purchased $30 million excess of $5 million, buying that retention for any losses outside of Florida down to $5 million. Probably worth mentioning, too, that the manner in which that program works is it effectively functions as a supplement to our core program. So our core program has a $35 million retention. Any losses that we pick up outside of Florida in an event, say, a single event that impacts Florida and some other states, this program would serve to reduce our retention. It would not be on top of. So it's not 35 plus 5. It's 35 minus whatever we could recover within the other states program. So we could be in a scenario if an event impacted Florida and, say, Georgia and the Carolinas, we could end up with a retention as low as $5 million for the entire event. In addition, you touched on the multiyear. We purchased now $308 million of limit on a true multiyear basis, and all of that is below the attachment of the Florida Hurricane Cat Fund. So that secures the pricing of over 60% of the capacity that we buy below the Florida Hurricane Cat Fund to give us some nice pricing stability in the event as any sort of industry-wide pricing changes on reinsurance. And then lastly, more vertical limit at the top, in buying up to $2.4 billion for a first Florida event, that gets us to nearly the 1-in-250-year level, definitely an expansion at the top end of the program as well.

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

Okay. And then in terms of -- I know the retention is $35 million. I know we've got a couple million at, I guess, American Platinum, but in a 1-in-100-event scenario, if you include reinstatements, what would the 1-in-100 net retention be in that scenario?

Jon W. Springer
President, Chief Risk Officer and Director

Well, we buy reinstatement premium protection for all of the layers below the Florida Hurricane Cat Fund. So our exposure to reinstatement would only be the portion involved alongside the Florida Hurricane Cat Fund getting us up to the 1-in-100-year event. I would estimate that exposure to be approximately $10 million.

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

Okay. And then just adding on to that, what would your net retention be when you take into account claims handling or brokerage income -- brokerage income that you would be able to generate as well in that same 1-in-100 scenario?

Jon W. Springer
President, Chief Risk Officer and Director

That's an interesting question. Let me start by saying, obviously, 1-in-100-year event, we're talking about $1.6 billion. That's a very large event. Our claims operation would, of course, be extremely busy handling claims. So revenues would be up. Profits would be up. We've estimated that a storm that would take us to the entry point of the Florida Hurricane Cat Fund, which is $540 million, would be roughly the breakpoint where we would recoup enough through the claims operation and through Blue Atlantic to offset the retention. So I don't have a number exactly on a $1.6 billion event, but I can tell you that $540 million is enough to replace the $35 million retention.

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

Okay. Moving on to a different topic. Has the frequency or severity of AOB changed at all in the last few months?

Sean P. Downes
Chairman and Chief Executive Officer

It's been relatively flat, Arash. We've seen a slight reduction in Q2. We had 720 AOB claims in quarter 1, 698 in quarter 2. But if you compare that to 2015, we had approximately 4,633 claims, and they were AOB claims compared to these first 2 quarters. So it seems to me that the frequency is decreasing. The severity is down by closest numbers. We've looked at about 4 points. So a slight decrease in severity and a decent decrease overall as far as frequency is concerned.

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

Okay. And does Fast Track, the new claims program you've put in place, does that seem to be helping in terms of combating AOB? And on top of that, what percentage of your claims are going through Fast Track now?

Sean P. Downes
Chairman and Chief Executive Officer

Yes, it's really a total claims operation more than a Fast Track situation. We have our SIU division and our Fast Track team as well as our water extraction experts, which I spoke about in our last quarter call. Together right now, those 3 groups really are handling between 70% and 74% of all of our claims that come in-house. Fast Track, when we say Fast Track, that's claim that gets noted as Fast Track when it's being handled within a 5-day period and closed out. That's about 40% of that 70% number. So we have seen a definitive, positive trend with our SIU division and our Fast Track division handling our AOB claims as well as all claims.

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

Okay, great. And do you -- do you still feel comfortable with your initial accident year 2015 loss pick being below accident year 2014's loss pick?

Sean P. Downes
Chairman and Chief Executive Officer

We do, because as we stated previously, a lot of these efficiencies that we put into place were midyear '15. So we're really starting to see all of these different efficiencies work together to work in a positive manner as it relates to our loss ratio. It's still green. We understand that, but we think that moving forward, these numbers are going to continue to improve.

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

Okay, great, and have you filed or received approval to meet 2 [ph] Citizens' new policy language regarding AOB? And if not, when do you plan to do that?

Sean P. Downes
Chairman and Chief Executive Officer

Yes, we have actually, and it's already been approved. It's approved for new business starting on 8/1/16 and 9/6/16 for renewal business.

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

9/1/16? Okay.

Sean P. Downes
Chairman and Chief Executive Officer

9/6/16 for renewal. 8/1/16 for new.

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

Okay. And in terms of the rating environment in Florida, have you filed any rate changes there? And is the indication up or down?

Sean P. Downes
Chairman and Chief Executive Officer

Yes, we have actually filed aggregate 2.6 rate increase. We have received some questions from the department in normal due course of business, and we should get some finality on that within the next 30 days.

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

Okay. Great. And it looks like you are still, obviously, growing well in Florida. Does the market there, you still find it attractive?

Sean P. Downes
Chairman and Chief Executive Officer

Yes, we do. I think, obviously, you can look at our market share. I think there's plenty of good rate-adequate business in Florida. So I think there is some upside, and I think there's some room for us to grow definitely in Florida.

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

Great. And can you talk a little bit more about the direct program, the traction you're getting there and your expectations for Direct?

Sean P. Downes
Chairman and Chief Executive Officer

Yes, we are pleasantly surprised. This initiative has really only been in place for 3, 4 months. We've really started in Pennsylvania, and then we added a few other states: Alabama. We added South Carolina recently, and Indiana and Minnesota. So obviously, we think we've written in excess of 100 policies really with very limited marketing expense. We've been, obviously, using SEO, search engine optimization, to drive as much traffic as we can to our website. We think that over time that the acquisition costs could be significantly lower than what it is right now traditionally with our agents. But as we stated previously, the difference between really what our marketing costs are and the traditional commission, we're pooling that money together and giving the difference back to our agents, who were specifically in a territory, who are appointed with us and are meeting certain criteria. So we are really pleased by this process. We believe we are the first insurance company to offer policy, where you can find coverage and pay for it on -- in one transaction. And we've got a lot of good results from it and good feedback. So we are definitely encouraged.

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

Okay, great. Lastly, how should we think about your loss and expense ratios relative to 2015 as we look forward?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Arash, this is Frank. I think the best way to look at those ratios would be to put a range on that. And notwithstanding any unforeseen events in the remainder of the year and excluding the $8.4 million severe weather events, I'd be looking at a range of 25 to 27 in the direct loss ratio, including the $8.5 million severe weather losses that we had in the first quarter, it'd be 27 to 29. And then your expense ratio, I would look at that somewhere between 36 and 38. Now just as a point of clarification. Pardon me?

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

Was that number on a net basis or direct?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

It's on a net basis, the expense ratio on a net basis, 36 to 38. And just as a point of clarification, I told you that the second quarter of 2015 was 25.6. That was actually the full year. The second quarter of 2015 was 24.3. And as you recall in the fourth quarter, we strengthened the reserves. So the full year was 25.6.

Operator

Our next question comes from the line of Samir Khare of Capital Returns Management.

Samir Khare

Capital Returns Management, LLC

I have some follow-ups on the direct initiative. The states you launched in, well, have you guys started your direct initiative in Florida yet?

Sean P. Downes
Chairman and Chief Executive Officer

No, we have not. We anticipate launching Florida at end of Q3, early Q4.

Samir Khare
Capital Returns Management, LLC

Okay, perfect. And just to follow up on the AOB question that Arash asked. You guys said you had 4,600 claims. Was that for the full year of 2015? Or was that just the first 2 quarters 2015?

Sean P. Downes
Chairman and Chief Executive Officer

No, that was for full 2015.

Samir Khare
Capital Returns Management, LLC

Okay, got it. Do you have the comparison for the first 2 quarters, by chance?

Sean P. Downes
Chairman and Chief Executive Officer

Yes. Give me 1 second. First 2 quarters: 720, quarter 1; 698, quarter 2.

Samir Khare
Capital Returns Management, LLC

Do you have that for 2015?

Sean P. Downes
Chairman and Chief Executive Officer

I don't have 2015, but I'll get that for you.

Samir Khare
Capital Returns Management, LLC

And you said there was a 4-point lower severity than before. Is that 4 percentage points in the loss ratio? Or what is the measure there?

Sean P. Downes
Chairman and Chief Executive Officer

Just a 4% decrease in severity.

Samir Khare
Capital Returns Management, LLC

4%. Okay, perfect. And when you guys look at potentially employing a buyback versus declaring special dividend, can you tell me what goes in that decision process? And how you guys use valuation in that decision?

Sean P. Downes
Chairman and Chief Executive Officer

You said buyback, and what was the other one, I'm sorry.

Samir Khare
Capital Returns Management, LLC

Versus a potential special dividend.

Sean P. Downes
Chairman and Chief Executive Officer

Yes, obviously, it just comes down to really analyzing our capital, really where is our stock trading at an individual moment of time and figuring out what the best way is to deploy that capital. Obviously, our board is heavily involved in that as well as management team. But it's not an exact science, Samir, but I will tell you that the share price, obviously, has a direct correlation to it, and that's kind of how we look at it.

Samir Khare
Capital Returns Management, LLC

Okay. And then last year Q2 2015, that still had the quota share in effect. So the expense in that quarter would have benefited from the ceding commission. Is that right?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Yes, for 2 months of the 3.

Samir Khare
Capital Returns Management, LLC

Okay. So then, in fact, this Q2 the expense ratio improvement is more pronounced, I would say? And is there any -- go ahead.

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Yes, I mean, if you were to roll the expense ratios from last year to this year, last year we had 37.8%, and the absence of the ceding commission added 3.2% to that. But we also had economies of scale, and that brought it down by 4.1%. And then we also had -- last quarter, we talked about some initiatives that the company and its Compensation Committee has taken to address executive compensation in addition to attaching performance measures to certain restricted stock awards that were included in the 2013 agreements. With the new agreements effective January 1, 2016, replaced restricted stock with performance stock units. And rather than having a fixed number of shares that are awarded at future date, which could have an impact on future earnings if the price goes up, it's a fixed dollar amount. So what is variable would be the number of shares. So that brought down the expense ratio in the second quarter by 1.9%. So that's how you get from the 37.8% down to the 35%.

Samir Khare
Capital Returns Management, LLC

That's great detail. And then just on Fast Track. Is there a benefit to the general and admin expense from these initiatives as well?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

I'm sorry. Repeat the question.

Samir Khare
Capital Returns Management, LLC

On the Fast Track initiative that you guys have going, is there also benefit to the general and admin expense from [indiscernible]?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Well, the Fast Track is part of the claims group, and those expenses are included in LAE, so that would not be reflected in your general, administrative expenses. So those are efficiencies that would ultimately flow through to the LAE ratio.

Samir Khare
Capital Returns Management, LLC

Okay. And as of now, have you guys changed your current loss picks on the claims that are going through Fast Track?

Sean P. Downes
Chairman and Chief Executive Officer

No, we have not. As I stated earlier, Samir, obviously, it's a little too green. We see all the efficiencies in place. We see a lot of the improvements in place, but we just don't feel like it makes a lot of sense right now to change that currently, and then we'll judge it as we continue going through for the rest of the year and take a look at it.

Operator

And our next question comes from the line of Vimal Gupta [ph], a private investor.

Unknown Attendee

I have got a couple of questions. On Florida versus other states, where UVE operates, you have given percentages in number of policies in-force, insured value. Can you provide a percentage on the premium earned or on the total revenue that percentage? How much you're earning it in Florida and how much is rest of states together?

Sean P. Downes
Chairman and Chief Executive Officer

Give us 1 second.

Jon W. Springer
President, Chief Risk Officer and Director

Got that number here for you.

Sean P. Downes
Chairman and Chief Executive Officer

All right.

Jon W. Springer
President, Chief Risk Officer and Director

So premium is for our other states portfolio -- 1 second.

Sean P. Downes
Chairman and Chief Executive Officer

$79 million.

Jon W. Springer
President, Chief Risk Officer and Director

$79 million. Expressed as a percentage, it would be 8.6% of our in-force premium as of 6/30.

Unknown Attendee

Okay. My second question is...

Jon W. Springer
President, Chief Risk Officer and Director

So obviously...

Unknown Attendee

Yes.

Jon W. Springer
President, Chief Risk Officer and Director

I was just going to say, obviously, the cost of policies outside of state of Florida is considerably lower.

Unknown Attendee

Yes, that is it. [indiscernible] My second question is on this investment income. Could you give me some idea how much did the UVE earn on its entire portfolio on the investment side? What was the total investment income contribution?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

The contribution of what, I'm sorry?

Unknown Attendee

No, how much the UVE earned on its portfolio, which is invested in fixed income, equities, everything taken together.

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Yes. Well, I mean, the investment income for the quarter was $2.1 million, and the book yield on the fixed-income portfolio is 1.47.

Unknown Attendee

My last question is how much number of employees on 30th June working in UVE, total headcount?

Jon W. Springer
President, Chief Risk Officer and Director

We have 426 employees.

Operator

And that does conclude our Q&A session today. I would now like to hand the call back over to Sean Downes, Chairman and Chief Executive Officer, for any closing remarks.

Sean P. Downes
Chairman and Chief Executive Officer

We are pleased with our performance in the second quarter, and I believe we have the right strategy in place to drive continued profitable growth and shareholder value creation. Our experienced and dedicated team, focused underwriting discipline, robust internal capabilities, superior claims operations and strong independent agent distribution network, coupled with our new Universal Direct platform, are all competitive advantages that we believe will allow us to capitalize on our future growth prospects.
In closing, I would like to thank our independent agents and our employees for their hard work and dedication as well as all of our shareholders, our Board of Directors and, of course, our management team. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. That does conclude today's program. You may now disconnect. Have a good day, everyone.