S&P Capital IQ

CONTENTS

Universal Insurance Holdings, Inc. NYSE:UVE

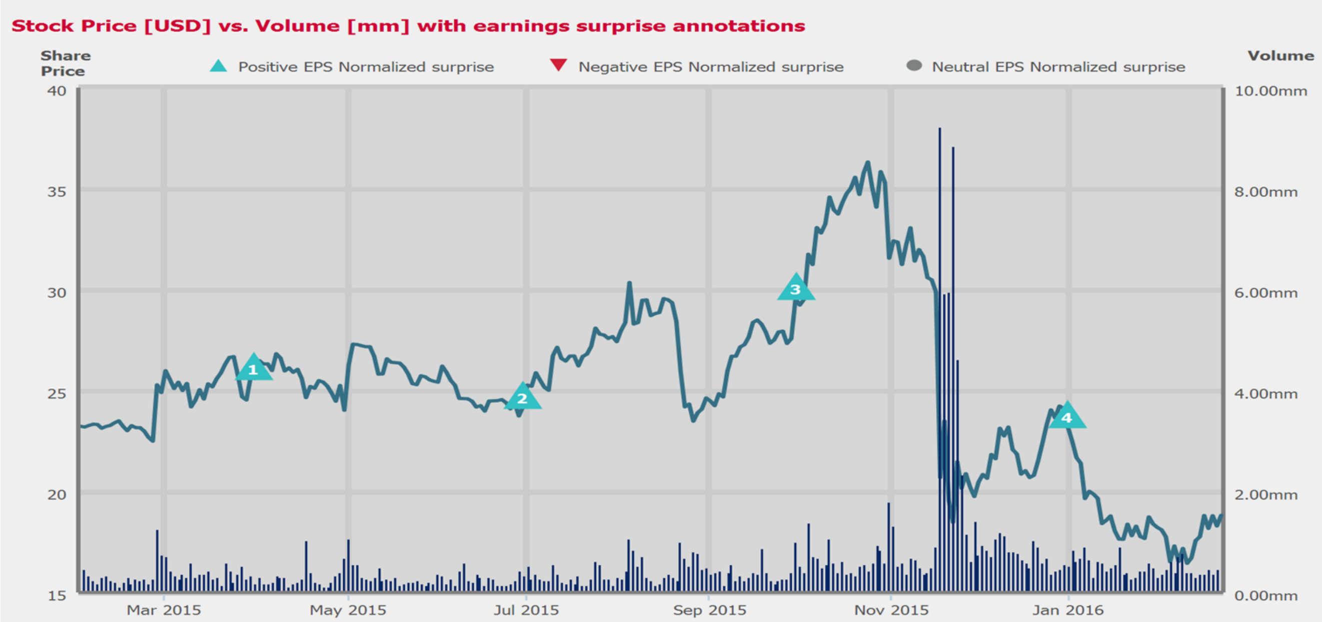
FQ1 2016 Earnings Call Transcripts

Tuesday, May 03, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.63	0.71	▲12.70	0.83	2.85	3.18
Revenue (mm)	162.93	164.45	▲0.93	167.97	676.54	738.47

Currency: USD
Consensus as of May-02-2016 11:57 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.52	0.62	▲1 19.23 %
FQ2 2015	0.55	0.69	▲2 25.45 %
FQ3 2015	0.67	0.84	▲3 25.37 %
FQ4 2015	0.72	0.82	▲4 13.89 %

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

SHAREHOLDERS

Unknown Shareholder

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Universal Insurance Holdings, UVE, Q1 2016 Earnings Conference Call. [Operator Instructions] As a reminder, this conference may be recorded.

I would now like to turn the conference over to our host of today's call, Mr. Matt Palmieri. You may begin.

Matt Palmieri

Thank you and good morning. Welcome to the First 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, John will provide an operational update and Frank will review financial results for the first 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 views regarding 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 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 said, I would like to turn the presentation over to Sean Downes. Sean?

Sean P. Downes
Chairman and Chief Executive Officer

Thank you, Matt. Before I begin reviewing the quarter, I'd like to tell everyone with a heavy heart that we lost a member of the Universal family last week, Mr. Norman Meier. Norman was a Board of Director for Universal for many years before his retirement in 2013. He was a great mentor to all of us and will be greatly missed. Our heartfelt sympathies go out to his wife and family.

I'd like to thank all of you today for joining us as we review our results for the first quarter of 2016. I'd 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.

We are pleased to have delivered another record quarter in the first quarter, which we achieved notwithstanding the severe weather events in Florida during the quarter. For the first quarter, net income was $25.2 million, an increase of 13% over the first quarter of 2015. And diluted EPS was $0.71, an increase of 14.5% over the first quarter of 2015.

These outstanding results, which follow on a record year in 2015, highlight a consistent execution of our growth strategy across all aspects of our business and the hard work of our employees and our network of approximately 7,800 independent agents. Thanks to their efforts, our subsidiary, UPCIC, is the largest private homeowners insurance provider in Florida, with an expanding presence in 17 states outside of Florida.

In the first quarter of 2016, we wrote our first homeowner's policy in Michigan and received certificates of authority both in New York and in New Jersey. Supporting our success is our consistent focus on maintaining disciplined underwriting standards as we seek to grow our business on an entirely organic basis. We have seen a consistent increase in policy count and premiums in all states in which we operate over the past 2 years.

A key factor in our success has been our commitment to providing high-quality service to our policyholders and independent agency force to our vertically integrated structure. We have continued to invest in our business in areas including underwriting, policy issuance, general administration and claims processing.

I would now like to take a moment to showcase our new Direct-to-Consumer Online Platform for homeowners insurance, which we began beta testing in April. It is now available to consumers in Pennsylvania, and we anticipate adding other states in the coming months. Universal Direct is the culmination of many years of work with our great Universal IT professionals, who with their help are now letting us tap into the power of the Internet to reach customers directly.

Customers will have the ability to manage their policies, bind, select payment plans and make payments online, while also having access to live customer support agents by phone or online for additional assistance as needed. I'm very happy to report today that we have written our first policy using Universal Direct, and we anticipate many more to come in the future.

Our consistent execution and operational performance has resulted in a robust financial position, allowing the company to continue returning capitals to shareholders. In April, the board declared a dividend of $0.14 per share of common stock. This is in addition to the $0.14 per share dividend announced in January.

Our ongoing share repurchase program and dividend payments highlight our continuing track record of prudent capital deployment and commitment to returning value to our shareholders. As we look ahead, we remain focused executing on our core strategy to drive profitable growth. First, we continue to drive high-quality service through our vertically integrated structure. Second, we will continue to increase our policies in-force in Florida by seeking profitable and rate-adequate and 100% organic growth. Third, we will continue to diversify our revenue base and risk by increasing our policies in-force in states outside of Florida through our geographic expansion strategy. And fourth, we will continue to optimize our reinsurance program as our risk profile changes.

Our record results for the first quarter of 2016 highlights the merits of our strategy. We remain committed to executing on our plans to drive profitable growth and enhance value for our shareholders.

Finally, since the short attack on our common stock last November, we have now reported 2 full quarters of record results. We have had a clean audit of our 2015 financial statements in internal control by our independent auditor and our independent opining actuary, Towers Watson, has completed its most recent review, which included company data through 12/31/2015. It has concluded that the company's carried reserves make the reasonable provisions for losses and are within the actuary's range of estimates and booked at the actuary's best selection.

I'm proud of our performance in 2015 and continuing into 2016. Everyone at the company more than ever is focused on our goal of driving profitable growth and increasing shareholder value.

With that, I will now turn it over to Jon.

Jon W. Springer
President, Chief Risk Officer and Director

Thank you, Sean. I would like to share a few specifics regarding the first quarter changes and exposures and also touch on where we are in the June 1, 2016, reinsurance renewal process.

First, from a growth perspective, before I start, I would like to point out that we express our growth numbers as true net growth, new policies written, less policies that have left us for one reason or another.

In the first quarter of 2016, we continued to successfully add profitable organically grown policies in each and every state. Overall, during the first quarter, UPCIC grew policies in-force by 2.1% to now ensuring over 637,000 policies and in-force premium grew by 1.8% to total now of nearly $900 million.

This successful first quarter brings the UPCIC growth rate over the past 12 months, 1Q '15 to 1Q '16, to 11.65% for policy count and 11.5% for in-force premium, all organically written one policy at a time.

During the first quarter, we were again successful in growing policy count organically in Florida by over 1% and in-force premium by 1.25%. The corresponding growth rate for Florida over the past 12 months was 7.6% for policy count and 9.2% for in-force premium. In addition, the portfolio business outside of Florida continues to develop nicely, experiencing first quarter policy count growth of over 10% and in-force premium growth of 9%.

The corresponding growth rate for business outside of Florida over the past 12 months was 51% for policy count and 47% for in-force premium. Lastly, from a reinsurance perspective, we are currently deep into the process of renewing our catastrophe reinsurance coverage to be effective June 1, 2016. We are pleased to report that as of today, we have secured authorizations to complete over 90% of our core all states catastrophe excess of loss tower. In addition, as part of this tower, we have secured some additional multiyear capacity below the attachment level of the Florida Hurricane Catastrophe Fund, bringing the total of our program below the Florida Hurricane Catastrophe Fund that is truly multiyear to just over 50%. As we have in the past, we will release additional details when all of our placement efforts are complete and coverage is bound.

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

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Thank you, Jon, and good morning, everyone. Net income for the first quarter 2016 totaled $25.2 million, which is an increase of 13% compared to $22.3 million in the same period of 2015. As our earnings release states, our results for the quarter include $8.5 million in pretax losses and LAE related to severe weather events occurring during the first quarter of 2016.

These losses in LAE were incremental to amounts provided for in the underlying loss ratio based on historical experience for such events. Notwithstanding these charges, our results reflect improvements in multiple measures driven by our efforts to increase profitability through rate-adequate organic growth. Earned premiums, total revenues, net income and diluted EPS were higher than any other first quarter in the company's history.

Diluted EPS for the first quarter was $0.71, which was up $0.09 or 14.5% from the same quarter in 2015. We increased net earned premiums by $58.1 million or 61.2% for the first quarter compared to the same period in 2015. This stemmed from both an increase in direct earned premiums of $24.6 million and a decrease in ceded earned premiums of $33.5 million.

The increase in direct earned premiums reflects our ability to drive organic growth, both inside and outside of Florida as previously discussed. The elimination of quota share reinsurance contracts was the driver behind the decrease in ceded earned premiums.

Net investment income for the quarter of $1.6 million was $743,000 greater than the first quarter of 2015. This reflects both an increase in our invested assets and actions taken to maximize yield as securities mature. Total invested assets reached $704.4 million as of March 31, 2016, compared to $591 million 1 year prior, a 19% increase.

We generated $667,000 of realized gains in the first quarter of 2016 compared to $171,000 for the same period in 2015. We realize gains from time-to-time when opportunities arise.

Commission revenue of $4.1 million for the quarter was up by $947 -- $940,000 as a result of overall changes in the structure of our reinsurance programs, including the amount of premiums paid for reinsurance and the types of reinsurance contracts used in each program. Policy fees of $4.1 million for the quarter were up $282,000 or 7.3% year-over-year as a result of the increase in the number of policies written.

Losses in LAE were $66.1 million for the 3 months ended March 31, 2016, compared to $33.6 million during the same period in 2015. The largest portion of the increase in net losses in LAE of $32.5 million was driven by the absence of losses in LAE ceded to reinsurers during the quarter as a result of the elimination of our quota share reinsurance arrangement in June 2015.

During the 3 months ended March 31, 2015, we ceded $15.4 million, none in the current quarter. Direct losses in LAE also grew by $8.6 million due to organic growth and by the $8.5 million previously mentioned. Our net loss ratio for the first quarter of 2016 was 43.4% compared to 35.6% in the same period in 2015. The key driver behind the increase in the net loss ratio was the severe weather events.

General and administrative expenses were $57.2 million for the first quarter of 2016 compared to $32.2 million for the same quarter in 2015, an increase of $25 million. The majority of the increase resulted from additional amortization of net deferred acquisition cost of $19.2 million, $16.6 million of which represents the absence of ceded commission from the elimination of quota share reinsurance arrangements effective June 2015. The remaining increase in amortization of $2.6 million was driven by organic growth.

Our expense ratio, which is G&A as a percentage of net earned premiums for the first quarter of 2016, was 37.5% compared to 34.1% for the same period in 2015. This was caused mostly by the increase in the amortization of net deferred acquisition cost, which increased the expense ratio by 8.4 percentage points and that was mostly offset by economies of scale.

The effective income tax rate decreased to 38.6% in the first quarter of 2006 (sic) [2016] compared to 41.3% for the same period in 2015. Our effective tax rate has been decreasing from reductions in the amount of nondeductible executive compensation and lower state income taxes as we diversify outside of Florida. Stockholders' equity and book value per common share reached all-time highs of $314.3 million and $9.03, respectively, as of March 31, 2016.
At this point, I'd like to turn the call back to the operator.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Arash Soleimani.

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

I just had a few questions here. Just to start off, can you talk about how you're achieving strong organic growth numbers within Florida just given that you're the largest insurer in the state already and given the level of price competition we're seeing?

Sean P. Downes
Chairman and Chief Executive Officer

Arash, we've had over a decade to cultivate the relationships that we had [indiscernible] existing agency force, and we take that very seriously. And also, we have approved the efficiencies in our underwriting department and claims department over that same time frame. So the transaction process between the agents and us we think is very favorable for the agents. So again, we put a lot of time and effort in cultivating that relationship and we think that's the key driver behind our success in writing organic business.

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

And how does the rate environment look from your perspective? I know you had a 2.2% rate increase in 2015. What is 2016 looking like? Have you filed anything? Or what do you see?

Sean P. Downes
Chairman and Chief Executive Officer

We haven't filed anything yet, Arash. We are in the process currently right now. We are currently determining our rate indication. We've seen, obviously, some of our competitors that have come in with some pretty high rates. But as we like to say, everybody has a different starting point. Currently right now, we don't believe that we're going to really have any real material change or currently either direction, but again, we'll be filing that within the next 2 weeks.

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

Okay. And then, moving to outside Florida, how are you achieving growth in those states given that you're new in those markets? As you said in Florida, you've had the relationships for years. So outside Florida, how are you getting those relationships going in? And what confidence do have that you're not being adversely selected against?

Sean P. Downes
Chairman and Chief Executive Officer

That's a good question. What we've been able to do is leverage our relationships that we currently have in place. And a lot of the agencies that we have in place in Florida have agents -- agencies in other states as well as relationships. So that's the first thing we've done to cultivate that relationship in out of state. And then it really becomes a grassroots movement, where we're putting our marketing reps on the ground, visiting agencies to get appointed with Universal. So that's really how that process starts off. As far as being adversely selected against, we own our -- we use our own internal profitability measure to underwrite all of our business before even selecting rates. So we have a clear understanding of what type of policies is creating our binding guidelines, et cetera, which we believe would prohibit that adverse selection happening.

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

Okay. Some of your Florida peers have also been expanding outside of Florida, as you know, but they focus exclusively on coastal states, so UVE is a little bit different in that. In addition to the coastal states, you're also growing in some inland states as well. Can you just talk about what competitive advantage you think you have in those states? And why you'll be able to compete in those types of states, whereas some of your competitors don't seem to think they can?

Jon W. Springer
President, Chief Risk Officer and Director

Thanks, Arash. This is Jon Springer. We go through a fairly detailed process of evaluating which states might makes sense for us looking at things like recent cat loss history in those states, the overall regulatory environment from a rate and a form perspective, also taking into account the overall size of the state and the potential contiguous nature to other states that we're already active in. After we've analyzed all of that, we make our decisions in terms of which states we want to file for our Certificate of Authority. And then as Sean alluded to a moment ago, the process is rather detailed for us to get up and running within a state as we're going in and meeting with agents and understanding the overall need for a mono-line carrier and the specifics of that state. Long before we ever write that first policy, we've done a fair amount of homework within those states.

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

And what about your underwriting ratios for Florida versus outside Florida, how do those differ?

Sean P. Downes
Chairman and Chief Executive Officer

Bottom line is obviously the other states have a slight incremental increase in loss ratio, but the way in which we have our reinsurance structured, we're kind of getting that reinsurance savings in those other states. So it's running relatively flat, our combined ratio in Florida as well as the other states.

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

That makes sense. And how about an A.M. Best reading? Do you think you need one in the near future? Or do you think it's unnecessary that you're able to grow -- given that you're able to grow without it?

Sean P. Downes
Chairman and Chief Executive Officer

Not having an A.M. Best rating has not prohibited us from growing. But I think like any company, when you want to become more of a well-respected national firm, you seek to get an A.M. Best rating. A.M. Best is going through a criteria change now. We've seen some of the methodology that they've been coming out with, but it hasn't been finalized yet. Once that is completed, then we will analyze how that will compare to our capital base, et cetera, and move forward with it. But I think, long-term, Arash, it's the goal of any company to get an A.M. Best rating.

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

And hopping back to the underwriting margins, how should we think about your loss and expense ratio trajectory in 2016? Do you think you can maintain 2015's margins?

Sean P. Downes
Chairman and Chief Executive Officer

Yes, I do. There isn't anything to make us think right now that everything won't remain constant. With the efficiencies and everything we've put in place and we spoke about and released earlier with our Fast Track, et cetera, we believe that we're very confident in the way in which our claims process has progressed since mid of last year. And the expenses, really, we believe, too, will be on the same line parallel.

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

Okay. And I had a question on -- so actually in year 2014's initial loss pick on a gross direct basis had gone from 28.2% initially to 30% a year later. Can you just talk about what caused that uptick? And then given that accident year 2015's initial loss pick is 28.8%, what gives you confidence that it won't develop closer to 30%?

Sean P. Downes
Chairman and Chief Executive Officer

Yes. We really noticed a big spike in 2014 as it related to the AOB/EMS situation that all Florida carriers are experiencing. So because of that, we had a full complete methodology change in how we are going to be treating those AOB claims. We created a Fast Track division as you're fully aware of, and then we took our internal and external adjusters and got them WRT-certified. So it has to be IIRC, which basically makes them professionals in the water extraction environment. So that we're treating the claim now almost as 2 claims, where we have an expert who works for us, who can speak the speak, if you will, of an expert water extraction company, and look at the individual AOB loss and say, "Okay, why has this loss adversely developed?" And normally, there's a lot of fraud embedded in the loss, and our experts are able to determine where that fraud lays out within the claim and reduce it. Second, we take our Fast Tracking and we then go ahead and have them handle the damage that is the result of the covered peril. So by handling both of these at the same time simultaneously, we are noticing a significant discount for us from a loss adjustment expense as well as an indemnity type of expense and an EMS expense. So I think the answer to your question simply is, the change that we made in '15 -- mid-'15 is a key driver why we are confident in our '15 loss pick, and the adverse development on '14 is because of the AOB situation.

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

Okay. And can you talk a little bit more about the direct insurance platform that you launched? Obviously, consumers are going to be familiar with international names such as GEICO or Progressive, but how will you get the word out about your direct platform?

Sean P. Downes
Chairman and Chief Executive Officer

Well, obviously, we're going to be using a lot of, like, Google/Yahoo Analytics to drive leads to our website. But number one, just so you understand, this really is an evolution of our internal platform that we use as a company and that we're going to be sending out to our agency force. So that really we've just created a new back end in that we're creating 2 new user interfaces: one for the consumer from a direct perspective and then one for the agent and one/the underwriter inside our office. So it's been an evolution that we have tried to figure out how we can combine both from one platform just by changing 2 user interfaces. And it's been a long arduous task, but we're pretty pleased with the results. And we will continue, as I said, to look at the best ways to drive traffic to this new website. We are in the infantile stages of it. We just ended the beta testing process and we have actually started to write a few policies. So we're excited about the potential for this. It's new obviously. And we're eager to see what the results are going to be.

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

And you talked a little bit about your reinsurance renewals coming up and that you're putting up 50% of your program on a multiyear basis. Can you talk -- is the pricing looking any different this year versus last year? And just kind of going forward even looking out a little more, should the multiyear portion of your programs continue to increase given where we are in the pricing cycle?

Jon W. Springer

President, Chief Risk Officer and Director

Just to clarify what I said in the opening remarks, we are adding to the multiyear capacities that we are already had purchased some of last year. So in our disclosures last year, you will have noted that we purchased some below the cat funds for -- on a 3-year basis and now we've added some new 3-year capacity. So we're phasing in some multiyear capacity, we think it makes sense to do that, it gives us additional stability, especially when you're talking about the property cat costs below the Florida Hurricane Cat Fund. It ends up being a meaningful portion of what we buy.

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

And just touching back on assignment of benefits, you mentioned how you manage that. Do you expect this issue from what you're seeing to improve or get worse over the next year or so?

Sean P. Downes
Chairman and Chief Executive Officer

Repeat that, Arash. You kind of broke off at the end there a little bit.

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

Sorry, just touching back to assignment of benefits, you were talking about how you manage it at Universal. Just a quick follow-up on that was do you expect the issue with assignment of benefits to improve or get worse over the next year or so?

Sean P. Downes
Chairman and Chief Executive Officer

Well, we're already seeing a decrease in frequency as far as our AOB is concerned and as well as the severity metric. Obviously, with the new change to Citizens' language, obviously, we're going to be looking to adopt 16-02737 and me, too. So I think that will obviously help us out as it relates to the beginning stages, if you will, of AOB, where there will be the minor limits -- $3,000 limit before the insured and/or the AOB independent can go ahead and make the EMS portion of the loss greater, plus the provision where the notification of timing is at 72 hours now. So I think those things right now will help, and we're just going keep trying to run our department as efficient as we can. And with some of these changes, hopefully, it will continue to progress in a positive light.

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

And quick numbers question for Frank. Did you have the number for direct premiums earned?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Yes, direct premiums earned $221,252,000.

Operator

And our next question comes from Vimal Gupta [ph], private investor.

Unknown Shareholder

This is Vimal [ph]. My question is regarding the tax rate, which is being paid by UVE versus other companies in Florida. Have you compared what is the tax rate with other companies in Florida? And going forward, what tax rate you are looking forward will be effective for 2016 and '17?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Appreciate the question, Vimal [ph]. And just before I answer the question, I think I'd like to point out that the company, along with its Compensation Committee, has been taking very active measures in restructuring its executive compensations beginning in 2015, where the company began awarding restricted stock with attached performance measures. And when you compare year-over-year what you're seeing is last year some runoff of amortization of older awards, whereas this year, we're amortizing those awards with performance measures. So when you look at our effective tax rate year-over-year and the change, which is about 269 basis points, about 190 of that relates to those actions that we've taken. In addition to that, as we expand outward into other states, you've got different tax structures in the different jurisdictions. For instance, in Florida, you have both income taxes and premium taxes. Now, to the extent that you're paying Florida state income taxes, you get a credit on your premium taxes, but the income tax survives and it shows up in your effective rate. In other states, you may pay premium taxes in lieu of income taxes. So as we expand outward, we are reducing the state income tax burden, and that accounts for about 50 basis points. And then, of course, we've got some other items, and really, those are economies of scale. When you think about what's happening is our taxable income is growing as we grow our net income. And so those amounts that are nondeductible become less as a percentage of the overall tax burden. Now as far as the other companies are concerned, I see them some below us, some above us. And to be honest, I just don't know enough about what their tax strategies are to really talk to them.

Operator

And our next question is coming from Samir Khare of Capital Returns.

Samir Khare
Capital Returns Management, LLC

I was just wondering on the stock sale to RenRe, what will the proceeds be used for?

Jon W. Springer
President, Chief Risk Officer and Director

Well, we're -- I'm sorry, I'll take that one. It's Jon Springer here, Samir. So as you know, with a transaction like this, the board, the management team, we're looking at these transactions as opportunities present themselves. So this opportunity presented itself to us as a means to enter into this transaction with RenaissanceRe and we felt comfortable doing it at the time that we did it. We have not yet disclosed and we're not going to at this moment what the proceeds will be used for.

Samir Khare
Capital Returns Management, LLC

Okay. And are there any additional terms and conditions afforded to RenRe? And if you could comment on what the -- after this transaction, what their total ownership of the company is?

Jon W. Springer
President, Chief Risk Officer and Director

I can't comment on their total ownership after this transaction. What was the first part?

Samir Khare
Capital Returns Management, LLC

If there are any additional terms and conditions afforded to RenRe.

Jon W. Springer
President, Chief Risk Officer and Director

Nothing additional has been disclosed related to this transaction.

Samir Khare
Capital Returns Management, LLC

Okay. And just regarding the cat in the quarter, how many events were there in total or I guess the severe storms? And were they all in Florida?

Jon W. Springer
President, Chief Risk Officer and Director

Yes. We did have 7 events that we logged as small- to medium-sized cat events, 4 of which where our claim count exceeded 150 impacted policyholders.

Samir Khare
Capital Returns Management, LLC

Okay. And anything in Q2 thus far?

Jon W. Springer
President, Chief Risk Officer and Director

No.

Samir Khare
Capital Returns Management, LLC

Okay. And I think you guys said something earlier about adverse development in 2014, but I wasn't sure if that was about this -- regarding this quarter. Was there any reserved development in this quarter? And if so, from what and what accident years?

Sean P. Downes
Chairman and Chief Executive Officer

There was not.

Samir Khare
Capital Returns Management, LLC

There was not. Okay.

Sean P. Downes
Chairman and Chief Executive Officer

There was none, I'm sorry, excuse me.

Samir Khare
Capital Returns Management, LLC

Okay. And then, Frank was talking about the repositioning or re-risking of the investment portfolio to enhance yields. I noticed that your equities have decreased by about 25%. Can you just give us the progress on that and where you guys are [indiscernible] in the first quarter?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

So we in the first quarter, we sold a few investments. We sold GE, Facebook, Apple, Berkshire Hathaway. We realized about $667,000 gain, I believe. The base of those securities were somewhere in the $20 million range, and that represented a significant portion of our equity portfolio. Given the volatility in the market right now, we're kind of sitting on the sidelines to wait and see what happens. And I guess, in the future, we'll decide when we want to get in and to what extent. But I don't see that the equity portfolio is going to grow as a significant percent of the overall portfolio.

Samir Khare
Capital Returns Management, LLC

Okay. And the receivables, other -- the other receivable bucket went up considerably in the quarter. What's in that bucket?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

You have a trade day before the end of the period, and they settle after the end of the period so -- and then the year. So it's really nothing more than receivables for securities sold.

Samir Khare
Capital Returns Management, LLC

Okay. And on the AOB conversation, you guys said, you guys are seeing a decrease in frequency. Do you think that's an industry-wide phenomenon? Or do you think that's Universal-specific given your initiatives?

Sean P. Downes
Chairman and Chief Executive Officer

Samir, I really couldn't expound upon our competitors and what they're doing as it relates to AOB. But I think, again, we've put a lot of efficiencies in place. I have seen a lot of people talk about this being a tri-county issue. Really, in 2015, more than 50% of our overall frequency was outside of Dade, Broward and Palm Beach. So I think each company has different structures, obviously, has different portfolios, so it's hard to really figure out why some companies may have more losses in other areas than others, but I couldn't really expound upon how -- if it's industry-wide. All I could really speak to is that I think the time and effort that we have spent in training our personnel to handle these claims has really been a strong driver of our success so far.

Samir Khare
Capital Returns Management, LLC

Okay. And then you guys talked about how you guys treat AOB claims, kind of as 2 claims: one is the attritional and one is the water part of the claim. For purposes of your reports in the annual statement, do you guys count that as 1 or 2 claims?

Sean P. Downes
Chairman and Chief Executive Officer

It would be counted as 1 claim.

Samir Khare
Capital Returns Management, LLC

1 claim, okay.

Sean P. Downes
Chairman and Chief Executive Officer

Please try to look at it as if there's 2 experts in their field handling the claim at the same time, being as efficient as they can in what their expertise is. It's not driving the LAE cost up at all, but it's helping us in keeping these claims out of a litigious environment, which would obviously have adverse development down the road.

Samir Khare
Capital Returns Management, LLC

Got it. And on the Fast Track initiative, how many claims have you guys processed through that system since the beginning of the program?

Sean P. Downes
Chairman and Chief Executive Officer

Approximately 7,000 claims have been processed through Fast Track traditionally. See -- they did -- what we like to say is Fast Track are claims that are actually being closed within a 5-day period, so that number would be that. But some of the claims sometimes just because the evolution of the claim go outside of that 5-day range, so it's not considered Fast Track, but more claims are being touched, if you will, by Fast Track hands than independents and/or other departments we have currently.

Samir Khare
Capital Returns Management, LLC

Okay. And do you guys have metric as to the -- I guess, the magnitude of the severity improvement or Fast Track claims?

Sean P. Downes
Chairman and Chief Executive Officer

Yes. We're looking at about an $1,800 per claim severity improvement with our own internal Fast Track folks handling claims for us compared to outside independents.

Samir Khare
Capital Returns Management, LLC

Okay. And then given these favorable results, have you been reserving differently for these claims?

Sean P. Downes
Chairman and Chief Executive Officer

No. We've been reserving the same because it's still green yet, but we're seeing a lot of favorable results and we're going to wait until our mid-year actuary overview because we have 2 actuary reviews per year. And we'll see exactly how everything plays out with comparing the numbers from our 2015 recent actuarial review.

Samir Khare
Capital Returns Management, LLC

Okay. And sorry, you had a midyear actuarial review. And when's the other one? At year-end?

Sean P. Downes
Chairman and Chief Executive Officer

We have 2 per year. The state requires you to do 1 a year. We do 2 per year. We just recently did, obviously, our end of '15 actuarial review with Towers Watson, and we'll be doing another one in mid-year '16.

Samir Khare
Capital Returns Management, LLC

Great. And then Arash asked about the competitive environment in Florida. What are you guys seeing in terms of a change in average commissions or other acquisition costs paid to agents?

Sean P. Downes
Chairman and Chief Executive Officer

Samir, we really haven't seen anything. I mean, obviously, we've been doing this a long time, so we consistently see new players that come into the market. Sometimes you see some people that are chasing policies and with low rate in certain areas. We've just been consistent using our internal profitability model to determine what's rate-adequate for this company, and that's the business that we seek. And because of our agency relationships, we have been able to attain that business and continue to see some positive growth.

Samir Khare
Capital Returns Management, LLC

All right. And some of your competitors, they've sought out partnerships with other carriers or auto carriers that -- to augment their growth. Is that something that you guys are looking to do inside or outside Florida?

Sean P. Downes
Chairman and Chief Executive Officer

We've had opportunities to do that with some folks. We've actually had a relationship with GEICO in some other states. But I think right now, we're just kind of trying to get our hands around our Direct-to-Consumer Platform, and with that be able to really pair up with the right folks around the country using that platform. And I think once we do that, I think that's going to give us a competitive advantage.

Samir Khare
Capital Returns Management, LLC

Okay. And then, how about M&A? Is that something you guys have an appetite for inside or outside Florida? And are there any dynamics that are giving way to opportunity for properties that you'd like?

Sean P. Downes
Chairman and Chief Executive Officer

There's been a few M&A deals that we've looked at. Nothing has materialized, really, since past Stage 1 or 2. But we're always open to anything that will create an increase in shareholder value. And if it makes sense for us and the board, it's something that we would definitely pursue.

Samir Khare
Capital Returns Management, LLC

Okay. And then just on the reinsurance progress, the -- if you guys -- if there's any savings come 6 1 [ph], is it your intention to attach those savings on to the bottom line? Or would you guys look to buy more limit?

Jon W. Springer
President, Chief Risk Officer and Director

Well, as you know, Samir, we have a full team of reinsurance professionals, who are constantly [indiscernible] in the most efficient way to spend our reinsurance dollars. The first thing we do as proposed [ph] in my opening remarks is to establish that core catastrophe tower. And after we have determined the cost of that along with the cost of the Florida Hurricane Catastrophe Fund protection, then we look at those remaining dollars within our budget and decide if it would make sense to make other efficient purchases. So no final decisions have been made, quite frankly, nor will they made until we've evaluated and exhausted the different types of reinsurance products that are available at different cost levels.

Samir Khare
Capital Returns Management, LLC

Okay. And as you guys continue to grow significantly out of state, does it make sense to get an aggregate that helps with cats in other states other than Florida?

Jon W. Springer
President, Chief Risk Officer and Director

Absolutely [ph]. Aggregate products, whether structured as excess of loss or aggregate stop loss, they can make a lot of sense. I think what's very important though is you need to understand the cost of those. If you're spending $0.80 to buy $1 worth of coverage, then the aggregate doesn't make a whole lot of sense. So it's all about the efficient use of those dollars. So we have looked at aggregate products actually each of the last 2 years when the other states' portfolio was much smaller than it is now and came to the conclusion that it didn't make sense at least the opportunities that were available at that time and we'll be looking at those type of products between now and June 1.

Samir Khare
Capital Returns Management, LLC

Great. And just on the direct initiative, I just wanted to go over the economics of the product. So we just basically think about the combined ratio as being similar to other business less commissions or other acquisition costs?

Sean P. Downes
Chairman and Chief Executive Officer

No. I think you can look at it as being relatively the same. Obviously, we have said in the past that the backbone of our business is our agency force, and we're going to be pulling the commissions less marketing expenses to drive traffic to our Direct-to-Consumer Platform. And then we will be then dispersing those commissions based upon the levels of business/territories that the current agents have [ph].

Operator

[Operator Instructions] Our next question comes from Michael Walsh, private investor.

Unknown Shareholder

Could you walk me through how UPCIC's new 2016 cap reinsurance program would respond to multiple large events?

Jon W. Springer
President, Chief Risk Officer and Director

Sure, thanks, Michael. We have -- we're buying right now our core catastrophe tower, which will have limits available for a single event up to $2.4 billion. So our responsibility would be our retention for any single event up to $2.4 billion. If we were in a situation where we've had -- where we have multiple events, with the manner in which our program is structured both having some limits that reinstate as well as limits that cascade down, just to give you an example, Michael, we would be able to withstand 2 storms of approximately $1.6 billion. If we were in a 3-storm scenario, all 3 of those storms could be approximately $1.1 billion or if we had a repeat 4-storm scenario like 2004, we could have 4 storms each of which could have the magnitude of $850 million, and we would still be looking at just our retention as our responsibility. Just to put a little bit around that in terms of what those numbers mean, a repeat of Hurricane Andrew modeled through RMS using our 3/31 data produces a loss of approximately $800 million. So in those examples I gave, all of those loss scenarios would have to be something greater than a repeat of Hurricane Andrew.

Unknown Shareholder

Okay. And you might have answered this already, but can you give me a sense of what your estimated losses would be if we had repeated the major storms in '04 and '05?

Jon W. Springer
President, Chief Risk Officer and Director

Yes, thanks, I mentioned Andrew. If we had a repeat of Hurricane Wilma, again, using RMS modeling and our most recent data as of 3/31/16, a repeat of Hurricane Wilma would be $345 million; the 2004 storms, Jeanne, $263 million; Charley, $220 million; Ivan, $147 million; and Frances, $134 million. So those help -- should help you in terms of evaluating the amount of reinsurance that we have available from a property tax standpoint given that none of the '04 or '05 storms would get anywhere near exhausting the amount of coverage that we have available.

Operator

And I am showing no further questions at this time. I would now like to turn the conference back over to Sean Downes, Chairman and CEO, for closing remarks.

Sean P. Downes
Chairman and Chief Executive Officer

Thank you. We are pleased with our performance in the first quarter of 2016 and believe we have the right strategy in place to drive continued profitable growth in shareholder value creation. Our experienced and dedicated team, focused underwriting discipline, robust internal capabilities, superior claims operations and strong independent agent distribution network are all competitive advantages that we believe will allow us to capitalize on the future growth prospects. We hope you have found this information useful, and as always, we welcome feedback from our shareholders. In closing, I would like to thank our independent agents and employees for their hard work and dedication as well as our Board of Directors and management team. Thank you for your time today.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day.