S&P Capital IQ

CONTENTS

Heritage Insurance Holdings, Inc. NYSE:HRTG

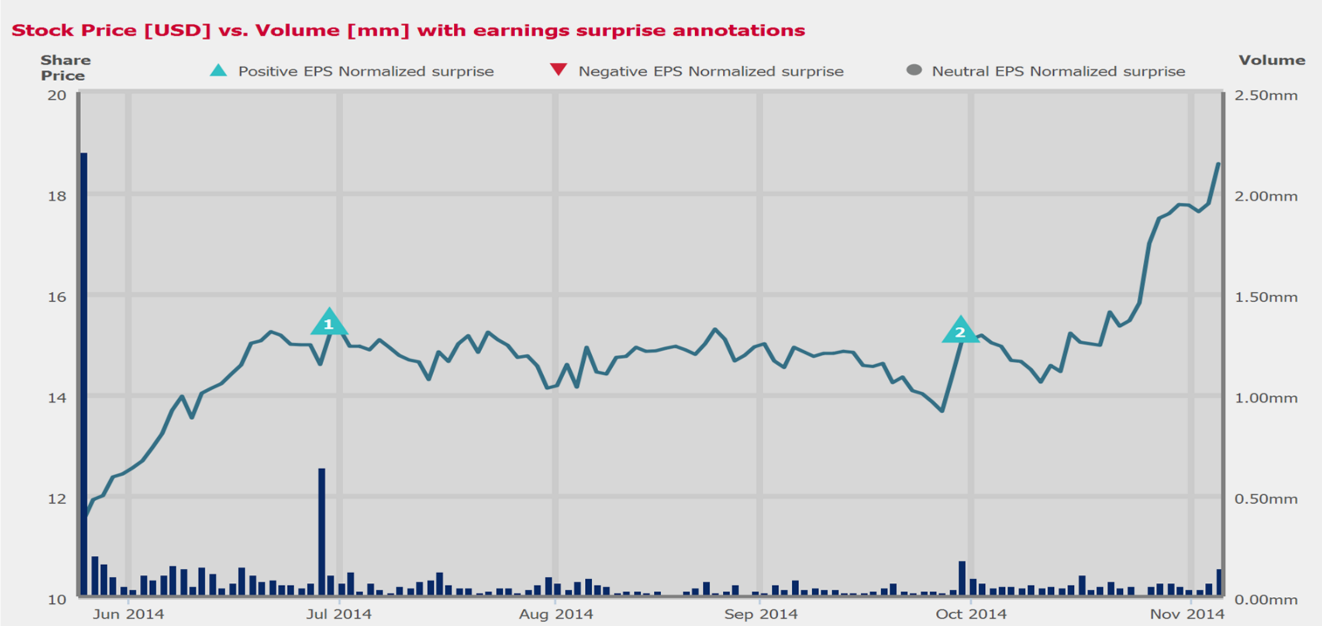
FQ4 2014 Earnings Call Transcripts

Thursday, March 05, 2015 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.43	0.66	▲53.49	0.68	1.55	1.82
Revenue (mm)	64.80	85.39	▲31.77	68.83	213.20	233.82

Currency: USD
Consensus as of Mar-05-2015 6:21 AM GMT



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	0.32	0.39	▲1 21.88 %
FQ3 2014	0.27	0.33	▲2 22.22 %

Call Participants

EXECUTIVES

Bruce Lucas
Chairman of the Board & CEO

Stephen L. Rohde
Advisory

ANALYSTS

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

John Bakewell Barnidge
Sandler O'Neill + Partners, L.P., Research Division

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Samir Khare
Capital Returns Management, LLC

Presentation

Operator

Good morning, and welcome to the Heritage Insurance Holdings Fourth Quarter 2014 Financial Results Conference Call. My name is Dan, and I will be the operator today. [Operator Instructions] As a reminder, this conference call is being recorded.

The matters discussed on this call that are forward-looking statements are based on current management expectations involving risks and uncertainties that may result in these expectations not being realized. Actual events, outcomes and results may differ materially from what is expressed or forecasted in forward-looking statements made on this call due to numerous risks and uncertainties, including, but not limited to the risks and uncertainties described within this conference call or press release issued yesterday and other filings made by the company with the SEC from time to time.

Forward-looking statements made during this presentation speak only as of the date on which they are made and Heritage Insurance Holdings thus specifically disclaims any obligation to update or revise any forward-looking statements to reflect new information, further events or circumstances or otherwise.

Now at this time, I would like to turn the conference over to Mr. Bruce Lucas, Chairman and Chief Executive Officer of Heritage Insurance Holdings. Please go ahead, sir.

Bruce Lucas
Chairman of the Board & CEO

Thank you, Dan, and good morning to everyone joining us for the call. This is Bruce Lucas, Chairman and CEO of Heritage Insurance and with me is Steve Rohde, our CFO. I would like to welcome all of you to our Fourth Quarter Earnings Call.

Before we begin the discussion of our quarter, I would like to take a moment to thank all of our employees for their commitment to our company.

I am pleased to report that we had our best fourth quarter in the company's history. When we launched our IPO in May of 2014, we outlined a very focused business plan that would produce significant top and bottom line growth. Our business plan included tremendous growth and personal lines premium and the launch of our commercial residential division. I'm happy to report that our fourth quarter significantly exceeded the projection set forth in our IPO.

From a financial perspective, we had an excellent quarter. Our gross written premium increased significantly, attritional loss ratios remained stable, and we generated an attractive return on equity for our shareholders. We continue growing our commercial residential program, and have grown the division to 12 members, which we believe is the deepest and most experienced commercial residential department in Florida. We are fully staffed and exceeding our projection to voluntary commercial residential production by approximately 50%.

We continue to have tremendous success in growing the company as evidenced by a few key metrics. For example, we had a 116% increase in gross premiums written compared to the fourth quarter of 2013. We had a 157% increase in net premiums earned compared to the fourth quarter of 2013. We also had a 64% increase in policy count compared to the fourth quarter of 2013.

During the quarter, we also assumed approximately $85 million in annualized commercial residential premium from Citizens Insurance, and we assumed approximately $84 million in annualized personal lines premium from Citizens as well; net operating income increased 1,220% compared to the fourth quarter of 2013; and finally, shareholders' equity increased 152% compared to the fourth quarter of 2013.

We are very pleased with our growth to date and have exciting plans for the company in the near future.

Now for more information on the financial result, I will turn the call over to Steve Rohde, our Chief Financial Officer. Steve?

Stephen L. Rohde
Advisory

Thank you, Bruce, and good morning. First, I'd like to give you a few financial highlights from the fourth quarter. Our gross written premiums were $181.5 million, net income was $19.7 million, our combined ratio, as measured against gross earned premium was 74.3%, and stockholders equity was $255.1 million.

Our policy count reached 209,400 policies at December 31, which included approximately 2,400 commercial residential policies. Our total in force premium at December 31 was $494.6 million, an increase of 109% over the prior year and 53% over the third quarter. This significant growth was fueled by our entry into commercial residential, which included 3 depopulation transactions during the fourth quarter totaling $85.4 million of in force premium, and $5.8 million of premiums written through the voluntary market.

As of December 31, approximately 81% of our in force premium is from personal residential and 19% from commercial residential business. In addition to the commercial residential depopulation activity, we also assumed approximately 39,000 additional personal lines policies accounting for approximately $84 million of in force premium from Citizens during the fourth quarter. This activity fuel the growth in our gross premiums written and gross premiums earned.

Gross premiums earned for the fourth quarter was $106.6 million compared to $50.1 million for the fourth quarter of 2013 and $86.8 million for the quarter ended September 30, 2014.

In addition to an increase in in force premium, our results were favorably impacted by significantly lower reinsurance cost as measured against gross premiums earned. Our ceded premium ratio was 23.5% for the fourth quarter of 2014 compared to 36.6% for the fourth quarter of 2013. This decrease was primarily the result of lower reinsurance cost following replacement of our reinsurance program on June 1 due to favorable insurance market conditions and the reissuance of $200 million of CAT bonds through Citrus Re as well as the improved geographic spread of risk resulting from the SSIC policy acquisition.

In addition, the significant increase in our gross premiums earned from the fourth quarter, Citizens depopulation activity also had a positive impact. Our ceded premium ratio for the third quarter of 2014 was 30.5%; reduction from 30.5% to 23.5% quarter-over-quarter was entirely the result of growth in gross premiums earned in the fourth quarter. So there's no corresponding increase in ceded premiums.

An increase in ceded premiums will not incur until June 1, 2015, when our reinsurance contracts renew.

Our loss experience continues to be positive and well within our expectations. Our loss ratio was measured against gross premiums earned was 25.7% for the quarter and 28.7% year-to-date. Our loss ratio on a reported basis, which does not include IBNR, was 19.8% for the quarter and 22.6% for the year with IBNR increases making up 5.9 points of the loss ratio for the quarter and 6.1 points for the year.

In total, our unpaid loss and LAE reserves at December 31, 2014, was $51.5 million, which included $30.1 million of IBNR, or 58% of the total loss in LAE reserves.

We are still a new company with limited loss development experience, and as a result, we have to rely significantly on the industry experience in establishing our reserves. Because of this, we have set IBNR using management's current best estimate near to the top of the indicated range as developed by our independent actuary.

Our expense ratio as a percentage of gross earned premiums was 25.1% for the quarter and 22.5% for the year. The $10 million acquisition payment for the SSIC policies was capitalized in June and is being amortized in relation to the earning out of the unknown premium that we acquired. The amortization of the SSIC acquisition payment was approximately $3 million during the quarter and $7.5 million for the year, which had a 2.8 percentage point impact on the expense ratio for the quarter and 2.4 points for the year.

Our combined ratio as a percentage of gross premiums earned was 74.3% for the fourth quarter and 79.4% for the year. We are very pleased with these results especially when considering each component of our combined ratio reinsurance, losses and expenses, were in line or better than our expectations. We believe this underlying base of proper business, which now includes approximately $95 million of commercial residential in force premiums, should position us well for the coming quarters.

On the balance sheet side, stockholders equity increased to $254 million compared to $100.9 million at December 31, 2013. Our May 2014 IPO increased equity by approximately $101.1 million with net income contributing $47.1 million.

Our statutory surplus in our insurance company subsidiary at December 31 was $172.7 million. Our gross written premium to surplus ratio was 2.5:1, and the risk based capital ratio as measured against the authorized control level was 459%.

Our invested assets at December 31 were $331.7 million with approximately $293 million invested in bonds with an average credit quality of A and duration of 4.0. Our cash position was $173.8 million and our total assets were $615 million at December 31.

Overall, we had an excellent quarter as well as an excellent year.

With that, I'll now turn it back to Bruce.

Bruce Lucas
Chairman of the Board & CEO
Thank you, Steve. We will now open the forum and take questions from our analysts.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Mark Hughes of SunTrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

I did want to ask, what is your latest thinking about the takeout opportunities? As we think about 2015, how do you look at it now versus where you might have looked at it 6 months ago both in terms of the remaining policies within Citizens and then the level of competition?

Bruce Lucas
Chairman of the Board & CEO

Yes, I would say -- Mark, this is Bruce. I'm going to say that obviously, the policies enforced at Citizens has waned compared to where it was 6 months ago. You typically do see that naturally through fourth quarter takeout activity, which is the busiest time at Citizens. As you see declining policy count that may create some declining opportunities to assume large blocks of policies. We choose to maintain a pretty disciplined underwriting approach and only pursue policies that makes sense to us from an underwriting perspective. We have decided to continue with the takeout process at Citizens and rather than focus on large scale assumptions more geared toward the fourth quarter, we are just spreading the risk out with smaller scale depopulations throughout the year -- or at least are still finding very good policies there. Citizens is the largest new business producer in the state of Florida. So there's always plenty of new policies going in. So we are slightly shifting the focus, in that, we're just doing more major takeouts on a monthly basis rather than focusing exclusively on the fourth quarter.

Stephen L. Rohde
Advisory

And then the first quarter, we did [indiscernible] all 3 takeout streams each month. And we expect those to net us about in excess of 22,000 policies on the personal line side, and approximately 300 commercial policies. Total premium and annual premium from those should be in the $60 million all the takeouts in the first quarter, and we are approved to do an April takeout and that's in process at this point.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Great. How about the -- any thoughts on growth initiatives outside the state maybe in Texas other markets? So you're certainly doing well in Florida. How do you think about the geographic expansion?

Bruce Lucas
Chairman of the Board & CEO

Yes, Mark. That's something that we've been working on for a while. We have a short list of 5 or 6 states that we're just finishing our due diligence on. We do intend to filing those new states this year and a new business production would be geared more towards fourth quarter at the earliest. It's more likely going to be more of a 2016 issue, I think. Once you get launched in the new state, your initial ramp up of voluntary production is a little slow until you kind of get out there and get your name on the street in front of the agents and really kick off your marketing campaign. But it's something that we are actively working on.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Steve, on the operating expenses, where should we think about those going forward? You had very good growth. They were little bit higher in terms of the ratio than I might have assumed. How much of a step down from Sunshine State amortization that we look forward in Q1? And then, just generally speaking, where should they be at?

Stephen L. Rohde
Advisory

We have about $2.5 million left to amortize on the acquisition cost of Sunshine State. So that will mostly go off in the first quarter with little bit trailing in the second quarter. I see our policy acquisition cost as a percentage of earned premium against direct earned premium. That would be about 14%. And we have no acquisition costs associated with the assumed premium we take from Citizens. Our general expenses are running about, I'd say, about 10% of gross written premium. Part of that is made up from the stock-based compensation as well as our bonus compensation; those 2 components represent probably close to 3 points of that at 10-point expense ratio on the general expenses to gross written premium. And then, of course, when we do the takeouts, we get that benefit from not having acquisition cost. So the takeout has been reduced that expense ratio that's trending in the all-in with stock-based compensations offered about 24%, it brings it down a couple of points. We'll bring it down a couple of points in 2015.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Great, okay. So low-20s, perhaps?

Bruce Lucas
Chairman of the Board & CEO

Yes.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then final question on losses. Are you seeing in the commercial residential losses consistent with kind of the -- I think, low-double digits maybe in the teens, was what some of those policies were generating. How was your experience then?

Stephen L. Rohde
Advisory

On the first quarter -- fourth quarter, which was our first quarter, we had very low reported claims. Our loss ratio on a reported basis on commercial for the fourth quarter ran about 3%. We did set up significant IBNR in the fourth quarter because it's a brand new line for us and limited experience. So we reserve to the mid-teens on that but the actual experience has not come through at all at this point.

Bruce Lucas
Chairman of the Board & CEO

Mark, this is Bruce and I'll add to that. We look at the outline of business and obviously, we're approaching $100 million of in force premium there. The loss ratios have been surprisingly low on a reported basis, but as Steve mentioned, we are very conservative in how we handle our claims. Overall, for the company, we run our IBNR right at the top of the range, just a hair under it, that's our best -- management best estimate of where we think it should be for a company on our growth curve. So we kind of look at that line of business and say, although we're not seeing the reported claims, it is still early, and it's more prudent to be over-reserve versus under-reserve. So we're pretty happy with where we are right now on the question -- with respect to IBNR.

Operator

Our next question comes from Arash Soleimani from KBW.

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

Just wanted to quickly ask you guys. On the commercial residential, you mentioned a reported loss ratio around 3%. What was the actual, I guess, CAT loss ratio on that business?

Stephen L. Rohde
Advisory

I mean, that was the actual...

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

Was that including IBR and everything?

Stephen L. Rohde
Advisory

That excludes IBNR. Including IBNR, it was about 14%.

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

14%, okay. And that seem to you -- I mean, I know you said there is conservatism in there, so do you feel confident of that could potentially actually be lower than that of the true run rate going forward?

Bruce Lucas
Chairman of the Board & CEO

We have to be careful in how we say that, but management's best estimate is that we feel IBNR should be at where it is at 14%. However, when we look at the policies that were at Citizens, and we saw loss ratios that were consistently in the kind of mid- to upper-single digits. And that's what -- there's a lot of historical data there that you can kind of mine through and if you're going to understand it from an underwriting perspective as to how that book of business has performed. Obviously, you would expect to see higher loss ratios on underpriced policies. And since we weren't taking those types of risks, we feel pretty confident in where we are right now. And that said, we just get a large depopulation in the fourth quarter, and we want to be conservative on the IBNR side. We never want to have to go back and increase the IBNR.

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

Okay, that makes sense. And obviously, the loss ratio from commercial residential are lower than the personal residential loss ratios. But how should we think about the reinsurance aspect of that? How was the, I guess, the reinsurance ceded premiums on commercial residential stack up against reinsurance ceded premiums [indiscernible] as a percentage of growth earned for personal residential? Relative to combined ratio and that will be pretty similar when you take everything into account?

Stephen L. Rohde
Advisory

Yes. Once you bring everything together, they both should run close to 80%, 85% combined ratio on a go-forward basis. The reinsurance cost of commercial residential, we are expecting that to be in the low- to mid-50% range.

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

Okay, okay. And the $5.8 million, I think you guys said you did I guess on a voluntary basis in commercial residential, is that sort of a fair quarterly run rate for organic business?

Bruce Lucas
Chairman of the Board & CEO

Well, it's hard to say because that was our first quarter of doing voluntary business. I mean, we did assume some commercial residential risks in June when we did the Sunshine State acquisition, but the voluntary program did not launch until the fourth quarter. We were very well received by market.

Obviously, we bound [ph] more premium than we had originally forecast. So we're pretty happy with that. I don't think it's that far off of what we would expect right now in terms of an average run rate. But we won't really know until we get a little bit further into the year.

Stephen L. Rohde
Advisory

Our first quarter numbers are very similar to those fourth quarter numbers.

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

Okay. And in general, are you guys seeing differences in ALT [ph] loss ratios between Citizens business and voluntary business?

Stephen L. Rohde
Advisory

Our loss ratio has been pretty similar between the 2. So there is not a vast difference at all from the -- actually, no. I would say, they're very similar.

Bruce Lucas
Chairman of the Board & CEO

Yes. We really do focus on the underwriting of those Citizens policies, and the fact that we've done the number of transactions that we've accomplished over the past 2 years. Comparing the data that we get on the takeout business, looking at the metrics to loss ratios, overall combined ratios, comparing that to the voluntary line, the fact that we are almost in line between those 2 business segments. I think, there is a real testament to the underwriting quality that we have with the company.

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

Definitely, definitely. And was there any development in the quarter favorable?

Stephen L. Rohde
Advisory

We had about $200,000 of favorable development on 2013 claims.

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

Okay. And from a, I guess, premium to surplus perspective, do you feel comfortable with where you are now? Is that a range where there's still little room, I guess, continue writing organically to a substantial magnitude?

Bruce Lucas
Chairman of the Board & CEO

Yes. I mean, we have a very conservative gross written premium to surplus ratio. And then we have not been shy about counting that as really a hallmark and the strength of the company versus some of the other companies that are down here in Florida. We currently write at a 2.5:1 on a gross written premium to surplus ratio. That's a good range for us. We like being in the 2s. We think that financial strength is really evident in the organization by looking at how much leverage they put on their capital base. So in the fourth quarter, we had some pretty significant takeout activity, and we down-streamed approximately $35 million into surplus in that quarter to bring this up to about $172 million. Organically speaking, we probably will sit at $200 million right around the June timeframe. Not sure where that would put us with a couple of the other big Florida domestic insurers, but if it's not #1, it's going to be right close to the top of the list. You could run something with the 2 handle on it. On top of that type of surplus and that would give you an idea of where we feel comfortable in terms of top line.

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

Okay, great. And then final question, did you provide already a breakdown of voluntary versus Citizens or Sunshine State the policy breakdown?

Stephen L. Rohde
Advisory

The policy breakdown, on the personal line side, 74% is takeout business, 14% is SSIC business, and about 12% is voluntary. And then commercial residential was so much -- on the fourth quarter was the takeout. That represents about 92% and SSIC is about 5%, and voluntary is about 4%.

Bruce Lucas
Chairman of the Board & CEO

And Arash, when we originally gave out projections -- let's go back to the IPO time period because that's relevant for most people on the call. We really wanted to end the fiscal year at roughly at 25% voluntary mix of business compared to Citizens were there. We're right at 26%, so we're right on target. We're seeing some nice increase in the voluntary production side of the business right now. That corresponds to a couple of what we thought were major rate decreases that we took in the fourth quarter. So we're happy to see production moving up. It's in the right direction, and we're building on the momentum that we've been laying the foundation for over the past 12 months.

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

Okay. And with those the rate decreases you are mentioning, is that something where, again, absent Citizens business, would you still expect to expand underwriting margins in 2015 with those rate decreases in place after taking reinsurance into account -- again, absent Citizens?

Bruce Lucas
Chairman of the Board & CEO

Yes, I mean, we -- I don't really think that Citizens part of it's really relevant. I mean, we just kind of look at the in force book of business and look at where we are on a combined ratio basis; and then obviously, reinsurance is a critical part to that. We had some pretty significant reinsurance savings last year. And as a result, we took some rate decreases across the portfolio to reflect that, passed some of those savings onto the consumer, but still maintain a pretty healthy combined ratio of 79.4% for the fiscal year 2014.

Operator

Our next question comes from Matt Carletti of JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

A few of mine have been asked and answered, but I have 1 or 2 left. On your reinsurance contract, I know the majority of it's on a 3-year basis. But could you maybe update us on as we head towards midyear, obviously, a part of it's is renewable and what you expect in terms of pricing? And then secondly, just if there is -- if we should be thinking about a lot of times in the very soft market, there is an opportunity to even renegotiate beyond just the piece of it that's renewing in the first year and if you think that's at all a possibility.

Bruce Lucas
Chairman of the Board & CEO

Yes, Matt, this is Bruce. I will take a shot at it and Steve prefer to jump in. Last year at 61%, we did place 88% of our private reinsurance cover on a multiyear basis with essentially alongside and below the CAT fund was on a 2-year duration. And then we did do 2 Citrus Re transactions totaling $200 million in CAT bonds and they had a 3-year duration on it. We still feel like the pricing that we got on that 3-

year bond is at or potentially better than what you may even see this year. So we feel pretty good about that purchase. You know, hindsight is always 2020, but it certainly looks like we got an excellent deal on those 2 Citrus Re transactions. With respect to the portions alongside and below the CAT fund that were more collateralized markets, we did get some pretty good rates in terms of last year. We have not gone to market yet to see what pricing will fall for those layers. We would expect pricing to be flat or down 5 points or so is -- would be my best guess for the market. I think once we're down, we're hearing about 10% overall depending who you talk to, but they had to catch up to the prior year 61% decreases. So we feel like we're in a pretty good position now with our growth curve. We bought approximately $850 million of reinsurance last year -- and that's between FHCF and private. Sorry, it was $990 million because we had to add more after the Sunshine State acquisition. We would definitely be in that $1.5 billion-plus P&L range now with the fourth quarter takeouts. This gives us a really good opportunity to go in and dollar cost average, secure additional, hopefully, multiyear cover at really favorable rates and take a lot of the volatility that you see post event out of the business plan entirely. And I think that's just a good way to buy reinsurance. I mean, you could take a lot of excessive risk and buy a 12-month contracts and hope it goes down a few points. But if you can lock in multiyear cover at very sustainable rates, run 79% combined ratio and take a lot of the rate volatility out of the equation. I think that's the prudent and best way from an enterprise risk management standpoint to run your company.

Stephen L. Rohde
Advisory

[indiscernible] I'm just going to add, Matt, that because of our growth, the FHCF layer moves up. So the layer we bought down below for the -- with the 2-year cover. About half of that -- the portion that we bought last year will cover about half of that knee down below. So we'll have an opportunity to buy additional reinsurance down low at hopefully better terms. But like Bruce said, the dollar cost averaging is working out very well for us.

Bruce Lucas
Chairman of the Board & CEO

Yes. And one more kind of number. So that $990 million that we ended up buying last year post Sunshine State acquisition, only $200 million of that was in the Citrus Re transaction. So there is still a lot of private reinsurance that we need to go out there and acquire. And with the growth that we've experienced year-over-year plus 100%, it's a great opportunity for us to dollar cost into the market right now.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. It's really helpful. And just one other quick question if I can. Just, Bruce, on the M&A environment, do you see potential opportunities for further M&A whether it's renewal rates or outright acquisitions and whether that might be in Florida or might help facilitate you getting into some of the newer states you are looking to get into?

Bruce Lucas
Chairman of the Board & CEO

Yes, I think that's a great question, and the answer is yes, there are M&A opportunities that are out there. We are actively looking at several of them now. We're only going to do a deal obviously if we think it's the right fit both from a business standpoint and cultural standpoint with the organization that we bought on our end -- but there are some good opportunities that are potentially out there. We're continuing to work towards those. And I think that, that is something, especially on a multistate basis, that would be pretty attractive to us.

Operator

Our next question comes from John Barnidge of Sandler O'Neill.

John Bakewell Barnidge
Sandler O'Neill + Partners, L.P., Research Division

Most of my questions have been answered. But just one quick modeling question. Your other revenue line item grew quite a bit throughout the year. I was, one, wondering, what are the sources of that? And two, how should we think about a run rate for that?

Stephen L. Rohde
Advisory

Okay. What makes up there is 2 primary items: one, is the $25 policy fee that we collect on every policy that we issue or renew, and that makes up about half of it; and the other is the rental income that we get from the buildings that we own at which, about 88% is leased to other tenants. So the policy fees will continue to grow as their policy count grows, their rental income will be fair to level with -- we'll be paying at levels at right now.

Operator

Our next question is a follow-up from Mark Hughes of SunTrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

You had taken some selective rate decreases. It sounds like -- did you quantify what the average might be or average rate across all of your book? And if you could distinguish between, I guess, commercial is a new venture but on the residential side what the rate has been?

Stephen L. Rohde
Advisory

Sure. Overall, on the takeout, homeowners HO3 business, we took a minus 1.4%. And then on our voluntary business for HO3, we took a statewide overall decrease of 12.5%. And for our voluntary HO6 filing, we took an overall minus 8.9%.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

How do you think that compared to the overall pricing? Where do you think you sit relative to your competition?

Bruce Lucas
Chairman of the Board & CEO

Yes, I mean, that's a really good question. And unfortunately, there are so many different rating algorithms out there -- I mean, every company has their own territories. Some of them use [indiscernible], some don't. I would say that overall, we're definitely in the ballpark with a lot of the other leading producers in the state. We have our sweet spots like other companies do. We are seeing great activity in the Southwest, Southeast and increasingly so in the Northeast and Central Florida. The rate decreases were targeted to help voluntary production in areas where we want to grow so that we can avoid risk concentration, and they've been pretty effective in doing that. I think last month, we wrote in 49 different counties. So I was pretty happy to see the spread of risk that we're getting throughout the state. It was very encouraging.

Operator

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

Samir Khare
Capital Returns Management, LLC

I think you said in the success rate of each of your takeouts in Q4, so I was hoping you can tell us the -- how many policies you guys tagged and how many policies you actually stuck and annualized premiums associated with each?

Stephen L. Rohde

Advisory

During the fourth quarter?

Samir Khare
Capital Returns Management, LLC

Yes, that's right.

Stephen L. Rohde
Advisory

Okay, on the personal line side, for the October takeout, we tagged 19,000 policies, approximately; and we netted after opt outs about 11,000 policies. And that was about a 58% success rate. November, we tagged 38,000, and we netted about 21,000. In December, we tagged about 14,000 policies and netted about 7,500.

Bruce Lucas
Chairman of the Board & CEO

I think, Samir, if you want to look at kind of a good run rate net of both opt out windows, the first 30 days and the second 30 days, it's probably that mid-50 number, 50% to 55%. That's historically on par with what we've done in the past. So we're seeing the take up rates are pretty much an even keel at this point in time.

Samir Khare
Capital Returns Management, LLC

Okay. And what about for the commercial residential takeouts? It sounds like you -- looks like you guys have a really good success there.

Stephen L. Rohde
Advisory

Yes. There we tagged or mailed 2,300 policies in October and received 1,877 of those after opt outs. And November, we tagged 175 and after opt outs, we had 100 policies. And December, it's about 390 policies, which we received 239 policies.

Bruce Lucas
Chairman of the Board & CEO

A little bit higher take-up there, Samir. And I think a large part of that is a real testament to the team that we built downstairs on the first floor. I mean, we brought over Randy and Arlene and some other people from outside. They've done a great job of building out that underwriting department to 12 people now. That to our knowledge is the deepest commercial res department in the state of Florida. They have an excellent reputation, and then the financial strength of the company, that really matters for these kind of higher TIV dwellings and the way that we seed out the risk on those, I think, has been another important factor in terms of our take-up rate. We're only retaining about $1 million of risk on any building, and we're seeding out everything else above that. So it's a very conservative risk profile for the company. You kind of combine those together with the capital base that we have at the company, and that's a big reason why I think our take-up rate was higher for commercial residential.

Samir Khare
Capital Returns Management, LLC

Okay, great. And then on the residential side per take downs, what's the retention rate for those policies?

Stephen L. Rohde
Advisory

The policies that make it to renewal, we are renewing on average about 80% -- 85% -- 84% for the year, and we have about another 5% to 6% cancel midterm.

Samir Khare
Capital Returns Management, LLC

Okay. And if you can give me some metrics on the progress of your voluntary homeowners business. In Q1, how many policies you are making per month? And what's your average premium there?

Stephen L. Rohde
Advisory

In the month January, we wrote about 1,500 policies. And in February, we exceeded that. So we're starting to average more like 80 policy -- or sales a day on the voluntary side in the last few weeks.

Bruce Lucas
Chairman of the Board & CEO

Yes, I'd say that's right. The premiums vary a lot from geographic area to the area, and if we're going to load up on Tri-County business, obviously, the average premium size will be significantly higher. We're really focused more, not on the average premiums size, but on the spread of risk and the profitability of those policies. And when you kind of look at voluntary HR3s, you're looking at something in the $1,700 range, and that's kind of reflective of a really good spread of business throughout the state. And then on HO6, it's obviously much more risk, lower premiums there, call it upper $600 to $700 in premium. And if you wanted to solely focus on the average premium size, we could just go and turn the flood gates on in Southeast Florida and write $3,000 premiums all day. But I don't think that will be the right move for the company. And what we really focus on is your overall combined ratio. That's the more telling number.

Samir Khare
Capital Returns Management, LLC

Sure. And as you guys focus on our new business, as you ramp that up, what is the proportion that of HO6 versus HO3?

Bruce Lucas
Chairman of the Board & CEO

HO6 is not a particularly large part. I'd have to look at where we are for in force. Steve, do you have that number?

Stephen L. Rohde
Advisory

Yes. We've written our in force -- voluntary is 18,000 HO3s and about 1,700, HO6s; and about 4,300 DP3. So it's less than 10% of our voluntary production.

Samir Khare
Capital Returns Management, LLC

Okay, perfect. And there was an increase in G&A in Q4. I'm just wondering if that was from -- and if that will continue to be a seasonally high quarter or G&A? Or is just the new run rate for '15?

Stephen L. Rohde
Advisory

$3.3 million of that was related to stock-based compensation, some options that were granted in the fourth quarter. That was the primary.

Operator

This concludes our question-and-answer session. I'd like turn the conference over to Bruce Lucas for any closing remarks.

Bruce Lucas
Chairman of the Board & CEO

Thank you. Just wanted to thank everybody for your support of the company, participation on our fourth quarter call. We look forward to speaking with you in the next quarter. And thank you, again, for all of your questions and will follow up with some additional information as things progress on our side.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.