S&P Capital IQ

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Heritage Insurance Holdings, Inc. NYSE:HRTG

FQ3 2016 Earnings Call Transcripts

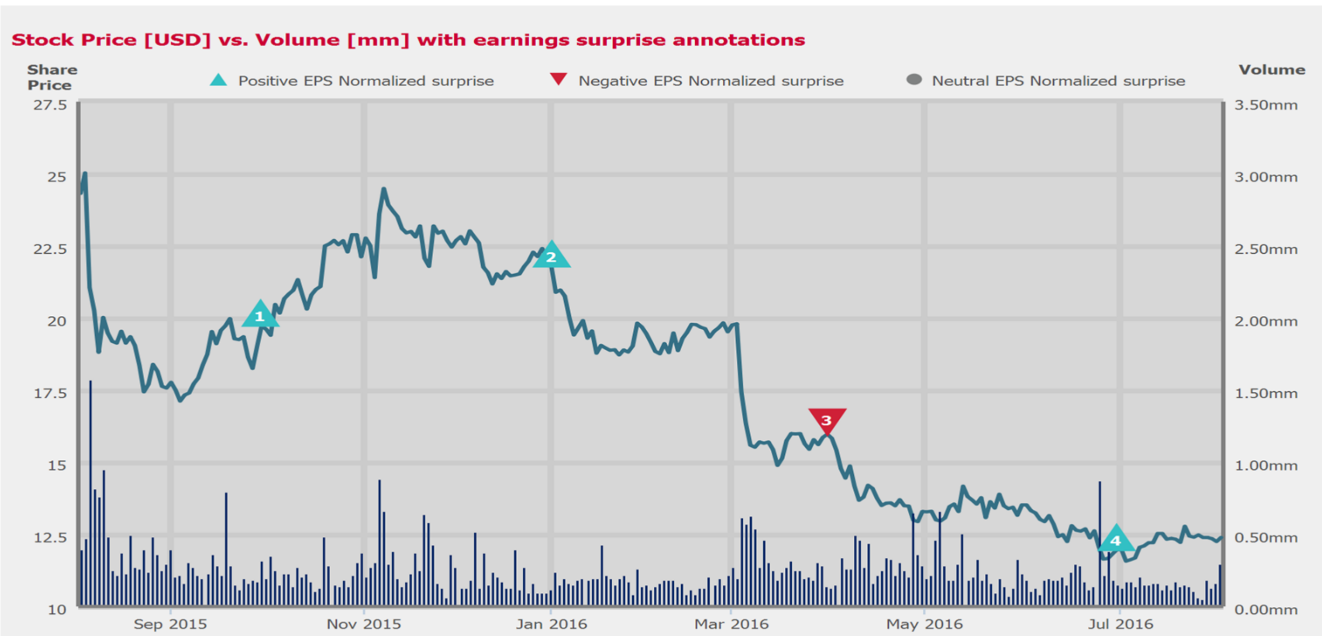
Wednesday, November 09, 2016 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.38	0.37	▼ (2.63 %)	0.26	1.00	2.15
Revenue (mm)	108.44	109.31	▲ 0.80	109.30	444.00	445.70

Currency: USD

Consensus as of Nov-09-2016 6:21 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	0.49	0.55	▲1 12.24 %
FQ4 2015	0.65	0.66	▲2 1.54 %
FQ1 2016	0.45	0.24	▼3 (46.67 %)
FQ2 2016	0.55	0.62	▲4 12.73 %

Call Participants

EXECUTIVES

Bruce Lucas
Chairman of the Board & CEO

Melanie Skijus

Stephen L. Rohde
Advisory

Steven Martindale
Chief Financial Officer

ANALYSTS

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

James F. Naklicki
Citigroup Inc, Research Division

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

Presentation

Operator

Good morning, and welcome to Heritage Insurance Holdings' Third Quarter 2016 Financial Results Conference Call. My name is Denise, and I will be the operator today. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Melanie Skijus. Please go ahead.

Melanie Skijus

Good morning. The third quarter earnings release can be found on the Investor section of heritagepci.com. The earnings call will be archived and available for replay. Today's call may contain forward-looking statements. These statements, which we undertake no obligations to update, represent our current judgment and are subject to risks, assumptions and uncertainties. For a description on the risks that could cause our results to differ materially from those described in the forward-looking statements, please refer to our annual report on Form 10-K and other filings made with the SEC from time to time.

With us on the call today are Bruce Lucas, Chairman and CEO; and Steve Martindale, Chief Financial Officer. Also on the call is Steve Rohde, Financial Consultant to the company. I will now turn the call over to Bruce.

Bruce Lucas
Chairman of the Board & CEO

Thank you, Melanie. I would like to welcome all of you to our third quarter 2016 earnings call. Before we begin a discussion of the quarterly results, I'd like to take a moment to reflect on the last few month and thank our employees for their unwavering dedication to our policyholders and the company. After 11 years without a hurricane, Florida endured 2 hurricanes, Hermine and Matthew, in little over a month's time. Our claims and remediation service teams worked tirelessly to reach out and respond to policyholders impacted by the storms. I am proud of our team's response times and the execution we provided to policyholders during and after both of these storms. Our vertically integrated claims department has responded to roughly 3,000 claims in total, many of which were addressed within hours and days of the storms. We believe our unique approach to managing and resolving claims benefits our customers and helps to deter fraud from assignment of benefit schemes. Heritage has received 523 claims related to Hermine, and we have recorded $4 million in projected losses from these claims in the third quarter. I wanted to get out early on Hurricane Matthew with an estimate on projected losses as the media was inciting panic in the days leading up to the storm's landfall in the U.S. and estimated industry projected losses were fluctuating hourly, given shifts in Matthew's projected path. I am happy to report that Heritage's losses for Matthew have materialized significantly less than we had previously estimated. As the storm track moved further east, projected losses diminished. We have had approximately 2,500 Matthew claims to date, and we anticipate approximately $30 million in incurred losses. Aside from our hurricane activity, our core business operations have been good. We received a 9.9% rate increase on our Citizens policies that will be effective on December 15. The primary driver of the rate increase is assignment of benefit and attorney-represented claims.

We'll now turn to the third quarter of 2016. Despite Hurricane Hermine, which resulted in loss and loss adjustment expenses of $4 million, we posted net income of $10.9 million and return on average equity of 11.7% in the third quarter. Other highlights in the third quarter are as follows: Gross premiums earned increased 28% year-over-year to $165 million. Policy count increased 36% year-over-year to 327,000 policies. Stockholders' equity of $377 million increased 14% year-over-year. We repurchased 284,377 shares of common stock for a total of $4 million. Growth continued in voluntary personal lines, aided by expansion in North Carolina with 4,899 policies in force at September 30, 2016. We began writing policies in South Carolina with production showing steady growth month-over-month. Zephyr continues to perform well and the integration into Heritage has been seamless. I will now turn the call over to Steve to provide more detail on our financials.

Steven Martindale
Chief Financial Officer

Thank you, Bruce. Good morning. Gross premiums written for the third quarter were $147.2 million, down 1% compared to a year ago. Approximately 13% of the gross premiums for the quarter were written outside of Florida with 11% coming from Hawaii and 2% from North Carolina. The decrease in premiums written can be attributed to an absence of Citizens assumption activity in the third quarter of 2016 versus $33 million in assumed premiums written in the third quarter of 2015. Voluntary business written by Zephyr in Hawaii and by Heritage in Florida and North Carolina offset most of the decrease in policies assumed from Citizens. New business in North Carolina continues to show strength with $3.3 million in direct premiums written during the quarter. Our total policy count at September 30, 2016, was approximately 327,000. The Heritage personal lines policy count was approximately 249,000. Heritage voluntary personal lines policies increased by 4,300 policies from last quarter, largely due to new business written in North Carolina. Zephyr policies in force stood at 74,000, bringing us to a consolidated personal lines policy count of approximately 323,000. Our commercial lines policy count was approximately 4,000 at September 30, 2016.

Our total premiums in force at September 30, 2016, were $646 million, an increase of 19% from a year ago and an increase of 9% from the end of 2015. Commercial residential premiums in force were approximately $122 million. Gross premiums earned were $165 million for the third quarter of 2016 compared to $128 million for the third quarter of 2015. Our ceded premium ratio was 38.4% for the third quarter of 2016 compared to 35.8% for the third quarter of 2015. This is in line with the 37% to 39% guidance range we provided during last quarter's earnings call. The increase in the ceded premium ratio is attributable to a shift in our mix of business to more commercial residential and wind-only policies, which have a higher catastrophe reinsurance cost and a lower attritional loss ratio. Our loss ratio as measured against gross premiums earned was 32.7% for the third quarter of 2016 compared to 27.9% for the third quarter of 2015. The increase can be attributed to weather claims associated with Hurricane Hermine of $4 million, coupled with reserve strengthening and adverse development totaling approximately $2 million related to litigated prior year claims. Hermine added about 2.4 points to the gross loss ratio.

On our first quarter earnings call, we provided guidance that our loss ratio, excluding hurricanes, would be in the 29% of 32% range for the remainder of 2016. Excluding Hermine, our loss ratio for the quarter of 30.3% was within our guidance. IBNR represented approximately 58% of our total loss reserves at September 30, and the change in IBNR accounted for 2.1 points of the loss ratio for the quarter compared to 0.8 points for the third quarter of 2015.

Our expense ratio, as a percentage of gross premiums earned, was 22.3% for the third quarter of 2016 compared to 20.1% for the third quarter of 2015. The year-over-year increase in our expense ratio is primarily related to the larger benefit realized a year ago from assumed earned premiums from Citizens takeouts, where there are no acquisition expenses associated with the premium. We provided guidance on last quarter's earnings call that an expense ratio ranging from 23.5% to 24% was reasonable going forward without the benefit of assumed earned premiums from Citizens. The benefit to our expense ratio from takeouts was 7/10th of a point in the third quarter of 2016 compared to 2.8 points in 2015. Our combined ratio as a percentage of gross premiums earned was 93.4% for the third quarter of 2016 compared to 83.8% for the third quarter of 2015. Net income for the third quarter of 2016 was $10.9 million compared to $16.8 million for the third quarter of 2015. On the balance sheet side, stockholders equity increased to $377 million, an increase of approximately $21 million from December 31.

During the quarter, the company repurchased $4 million of its common stock for a year-to-date total of $20.6 million, resulting in approximately 1.4 million shares repurchased so far this year. Statutory surplus in our 2 insurance company subsidiaries at September 30 was approximately $205 million and $72 million for Heritage and Zephyr, respectively. Our invested assets at September 30 were approximately $550 million, an increase of roughly $150 million from December 31 with about half of the increase attributable to the inclusion of Zephyr's invested assets into our consolidated balance sheet.
At September 30, our cash position was $131 million and our total assets were $1.1 billion. Regarding Hurricane Matthew, we've received approximately 2,500 claims, and we have set initial reserves for virtually all of these claims. To date, we've closed over 75% of Matthew claims, paid loss and loss

adjustment expenses of more than $6 million and incurred approximately $12 million on a reported basis. Based on our historical loss development factors, we could expect to report incurred losses from Hurricane Matthew of approximately $30 million in the fourth quarter of 2016. With that, Bruce and I now are available to take your questions.

Question and Answer

Operator

[Operator Instructions] And your first question will come from Arash Soleimani of KBW.

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

So few questions. I think you had mentioned that $2 million of the adverse development was from AOB. There was about $3.2 million total of development. I was just wondering what the incremental amount over the $2 million is?

Bruce Lucas
Chairman of the Board & CEO

Yes. There's $2 million total, about $3.2 million is prior years. So there's some favorable development on the first couple of quarters of this year to net to $2 million. But it's all AOB-related.

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

Okay. So, some of it -- so there was some development -- favorable development on prior quarters this year that would have benefited...

Bruce Lucas
Chairman of the Board & CEO

Right.

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

Okay, go ahead.

Bruce Lucas
Chairman of the Board & CEO

We're talking about really small amounts on a large reserve. The development is less than 1%.

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

Okay. But the $3.2 million of adverse from prior years, not from this, but from prior, so that was all AOB-related or was there anything else in there?

Bruce Lucas
Chairman of the Board & CEO

It's mostly AOB-related, and about half of it is actual results of coming in a little higher than expected results and then the other half is us actually increasing our loss development factors and strengthening reserves a little bit to make sure that we've got it handled going forward.

Bruce Lucas
Chairman of the Board & CEO

Yes, I think overall Arash, I think the takeaway from my perspective is that really our loss development and adverse development from prior quarters has been pretty flat. You look at the size of our reserves, the size of our policy count, et cetera, $1 million or $2 million movement overall is extremely small. As Steve mentioned, it's less than 1% development.

Arash Soleimani

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

Okay. I guess, the thing I was trying to back into, so if I take your gross loss ratio, and I back out $4 million of losses for Hermine, I back out the $3.2 million of adverse, I get like a core gross loss ratio of 28.4%, which is better than 3Q '15's core gross loss ratio by about 140 basis points. So I guess, I'm also trying to determine what's driving that 140 basis points year-over-year improvement, especially just given that AOB this year is probably more of an issue than it was last year at this time?

Bruce Lucas
Chairman of the Board & CEO

Yes, that's right. It -- really the better loss ratio this year is due to our mix of business, which includes more commercial residential and more wind-only business, which has the much lower attritional loss ratio.

Steven Martindale
Chief Financial Officer

I'd also add that our loss ratios in North Carolina have been very good. And we added quite a bit of policy count there in premium. And as mentioned previously, I think we're on track for a $9 million to $10 million a year in North Carolina and that book of business so far has performed incredibly well.

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

Okay. That's great to hear. And then just kind of going building on to that comment on new business. So can you talk about what the new business volumes were both in homeowners and commercial residential and how that compared to last year?

Bruce Lucas
Chairman of the Board & CEO

So, I can talk about -- the volume is up this year compared to last year.

Steven Martindale
Chief Financial Officer

We're pulling all of our underwriting returns.

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

Sure. No problem.

Bruce Lucas
Chairman of the Board & CEO

So Soleimani, I can tell you our in force business is up even quarter-over-quarter on the voluntary side. We look at it, Arash, and say commercial residential, for example, you really want to look at dollars that in terms you write, you can't really look at the theft count. And I would think that the third quarter of this year in commercial residential was less than the third quarter of last year. And that really just reflects our view of risk in some of the pricing that we've seen in the market from some of the other players, we want to make sure that we're approaching that business at the right combined ratio. Definitely on, I'd say, personal lines side, obviously our policy count is pretty flat there year-over-year, which is in line with our expectations.

Stephen L. Rohde
Advisory

This is Steve Rohde. Our sales for the third quarter 2016 on a voluntary personal lines side were consistent with last year, but the difference is that we have more business being written in North Carolina and West in the Tri-County. So we've shifted the mix of business away from the AOB-prone area of Tri-County and moved it into North Carolina, and the rest of the state is pretty flat year-over-year.

Steven Martindale
Chief Financial Officer

And that's to add to Steve's point there, I mean a big reason why you see voluntary production fairly flat as you mentioned increase in North Carolina, but I mean, there are just wholesale areas in the Tri-County on a personal lines basis that we think are at this point in time uninsurable. And so therefore, we have really curbed that voluntary production down there quite significantly for, I would say, the last 6 months until we see a fix on the legislative level to the assignment of benefit abuses taking place down there. We're really not interested in doubling down in the Tri-County at this point in time.

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

Okay. So basically, if we understand the key reason why gross premiums written were down modestly over year, that primarily just stems from your caution in Tri-County?

Bruce Lucas
Chairman of the Board & CEO

That's right. That's exactly right.

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

That make sense. And just along the same lines, what was the retention in each of your sub-segments, including organic business, Zephyr and takeout business?

Bruce Lucas
Chairman of the Board & CEO

Yes, Zephyr is averaging probably around 93% retention ratio. Do you guys have the number for Florida?

Stephen L. Rohde
Advisory

Florida voluntary is running just under 80% and then Florida takeout is running just above 80%. And commercial residential for the quarter was lower because of some risk...

Bruce Lucas
Chairman of the Board & CEO

Derisking.

Stephen L. Rohde
Advisory

Derisking that we did in the Tri-County. So it was running closer to 70%.

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

The 77% you said...

Bruce Lucas
Chairman of the Board & CEO

70% on commercial residential.

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

Okay. And when you say derisking, you just mean policies that you yourself choose to either nonrenew or...

Bruce Lucas
Chairman of the Board & CEO

Correct. We kind of looked at it and said, look, the pricing on these policies should be higher. Our belief is different from some of our competitors. I'm not really interested in expanding the top line and sacrificing profit. I don't think that makes sense. I mean, we're operating in Florida. We all know the perils in Florida, especially with the cat risk. I believe you have to have a certain underwriting margin in order to operate here and to justify the risk that you take on a hurricane retention basis. So we're not interested in adding top line and running on 99 or 100 combined ratio. That doesn't fit our business model. So we're going to make sure that we price the business to maintain a healthy and justified profit margin. And if we're not able to get that margin, then we'll let somebody else take that risk and make little-to-no profit on it. That's not the business we're interested in pursuing.

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

Okay. Great, that makes a lot of sense. Can you -- I think you mentioned already, but how many Matthew claims did you have? And from the total claims, how many have you closed?

Bruce Lucas
Chairman of the Board & CEO

Yes. Right now, we have about 2,500 Matthew claims. About, I'd say -- I think the last report was 76% of the claims have been closed. We've adjusted almost all of those claims. Right now if you want to look at our incurred and reserves, I would say it's about $13 million or so.

Steven Martindale
Chief Financial Officer

Roughly...

Bruce Lucas
Chairman of the Board & CEO

That's an approximate number in terms of where we are in losses. So, obviously, we've come out and said losses could get as high as $30 million, but we're going to use management's best estimate in the fourth quarter, once we see what the actual pays are and see how many claims continue to come in. But right now, claims are not really coming in at a big volume. They're kind of tailing off. And so, the there is a chance that we might do significantly better than the $30 million reserve. And so I'd like to highlight that because right now, based on what we're seeing, that's very probable. But I think, $30 million is a good outside number for what ultimate losses could look like.

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

Okay. And you have $13 million in case reserves now?

Steven Martindale
Chief Financial Officer

$13 million incurred on a reported basis. So we paid -- today, it's about $7 million. So and then about $6 million in case reserves, so for reported incurred $13 million

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

Okay. And then how much more do you have in IBNR then?

Steven Martindale
Chief Financial Officer

We have not set the IBNR for it yet, but the difference between the $30 million and the $13 million would be what we're thinking IBNR would be.

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

Okay. And then my last question. I just wanted to know -- we talked about this a bit last -- on the last earnings call for 2Q. Just an update on rate increases, and I think last time you also mentioned in addition to potential rate increase, there was an alternative you were working on the OIR? So I just wanted to get an update on those items.

Bruce Lucas
Chairman of the Board & CEO

Yes. So obviously, our big policy count segment is the Citizens HO3 policy form, and that's a big component of our overall Florida policies in force. We did receive a 9.9% overall rate increase. In the Tri-County, that's about 15% rate increase there. One of the alternatives that we're looking at with OIR is capping water claims at $10,000. That is particularly true on older homes, say 40 years and over, and we were able to get that approved. So that is, I think, a real benefit. I mean, policyholders still have a lot of coverage there, but on older homes, 40 years and up, just like many other of the Florida carriers, there is a $10,000 cap per occurrence on for water. And we have a pretty high percentage of our overall takeout portfolio in terms of HO3s that are over 40 years old. And that number, I believe, is north of 50%, I would say. So this is going to have a meaningful impact on the loss ratio and that helps us to curb additional rate increases on innocent policyholders that would otherwise get a rate increase because of assignment of benefit fraud that is taking place in that area. So this is a win-win for the consumer. It's a win-win for the company. Helps to control our loss ratios. And we are very thankful for the OIR for all of their help in working with us on a good solution to help to address the assignment of benefit issues.

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

And that you said, I heard a 9% -- 9.9% and 15%. Can you just clarify what were those numbers again?

Steven Martindale
Chief Financial Officer

Yes. So the overall rate increase is 9.9%. And in the Tri-County the rate increase is capped at a maximum of 15%. And pretty much most of the policies down there will generate roughly a 15% rate increase.

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

Okay. So the 9.9% that's the overall -- is that across your entire personal residential portfolio, the 9.9% average?

Steven Martindale
Chief Financial Officer

Yes. The Citizens HO3 policy form.

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

Okay. And what percentage of your business is that?

Steven Martindale
Chief Financial Officer

Takeout right?

Bruce Lucas
Chairman of the Board & CEO

About 75% of the takeout book is Citizens HO3 policy form.

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

Okay. And this 10k cap, so is that basically the language that gets applied at renewal? Or is that kind of effective as of the certain date for all the policies?

Bruce Lucas
Chairman of the Board & CEO

It's available at -- it gets put on automatically at renewal. The other thing that we are able to do is we are able to offer our policyholders a $10,000 cap on their water claim in exchange for roughly a 25% decrease on their AOP premium. And we think that is extremely important. So we can go to houses that are under 40 years old. We can approach the consumer and let them know that we can actually reduce their premium, and in exchange they take a $10,000 cap on their water coverage. And so that is an effort that we have ongoing now, where we're reaching out to agents and consumers to try to save them some money on their premium and cap the dollar amount of the claims. And since the vast majority of our policyholders are fairly honest people and do the right thing, we do think that the response rate there will be pretty significant.

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

And so you said this cap was on homes that are under or over 40 years old?

Bruce Lucas
Chairman of the Board & CEO

So it's an automatic $10,000 cap on homes 40 years and older. And there's an optional cap of $10,000 for homes 39 years and under.

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

All right. And this is -- and this new language, is it specifically for the Tri-County or for the whole?

Bruce Lucas
Chairman of the Board & CEO

For all policy holders.

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

Okay. And are you seeing any impact positive from when you said in this language that you would implement it?

Bruce Lucas
Chairman of the Board & CEO

Yes, I mean, it's too early to tell you. I mean, the language certainly does help the cap emergency restoration component of the claim until we have a chance to go in and adjust it. We were unique in that we were able to get language included that stated, there was unreasonable delays in terms of letting us in to adjust the claim that the cap continues indefinitely. So that language definitely helps our claims department address some of the abuses we've seen in the past, where the contractor will go in, they'll report the claim, they will be in there doing demo and remediation and they refuse to let us in to inspect their house. That's an unreasonable delay, and we're going to apply the caps. And that's fair. And it's in our policy language, it's in our endorsement language. So that will definitely help us to curb some of the abuses that are taking place. But it's too early to tell exactly what the impact of that will be, because in my opinion the language should go a lot further. And despite the language, there is nothing to stop the lawyers from coming in and filing suit. So I think, it will have some impact. But it's too early to tell really what the extent of that impact would be, but it is definitely a useful tool.

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

Okay. And sorry, what was the effective date of 9.9% increase and the 10K cap?

Bruce Lucas
Chairman of the Board & CEO

12/15.

Operator

The next question will be from Mark Hughes of SunTrust.

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

Could you give me some general thoughts when we think about gross premiums written in the fourth quarter with Zephyr coming online, your takeout activity, the potential year-over-year change when we think about your new business production. How should we think about the gross premiums written in the fourth quarter? You were essentially steady in the third quarter. How is the -- either fourth quarter shaping up or what are some of those dynamics we should consider?

Bruce Lucas
Chairman of the Board & CEO

Yes, just on a general basis, and I'll let the Steve chime in. Definitely on the takeout said, we're not doing takeouts right now from Citizens, and we've telegraphed that for quite some time now. Until we see assignment of benefit reform, we are not going to be assuming policies from Citizens. In fact, we had approval, for example, to take some wind-only policies, about 2,000 of them in October. We ran the numbers on that portfolio and it didn't make sense. We didn't select 1 policy. I believe that anybody that's assuming policies right now, particularly, from the Tri-County, which is where a lot of policies are at Citizens, I think that they're just going to lose money on every one of them. Until we see bigger rate increases at Citizens and/or assignment of benefit reform -- meaningful reform, I would not advocate assuming policies out the Tri-County and Citizens and that's where a lot of the policies are. We've been focused on our voluntary side effects, that's why we diversified and bought Zephyr insurance. So, obviously, that has worked out well year-over-year, and we've seen an increase in gross premiums of about 28% year-over-year. We've seen a 36% increase in policy count year-over-year. It's worked out well for us. We're continuing to expand our voluntary production outside of Florida. And the voluntary premium that we're writing in Florida is directed away from the Tri-County and areas of the state where we are profitable. And that's going to be the overall thesis going forward. But I would think kind of fourth quarter numbers, we would see it be barely flat, would be my guess.

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

Okay. And then in North Carolina, you said on track for $9 million or $10 million this year. Will South Carolina ramp up at the same pace? I know, you got a partnership in North Carolina that helps. Is that the same thing In South Carolina?

Bruce Lucas
Chairman of the Board & CEO

Yes, Mark, we do not have a strategic partner in South Carolina. I would expect that production growth there would be much more modest. I think right now, in terms of South Carolina, we don't have a really lot of premium their compared to North Carolina. About 200,000 was written in the quarter in the South Carolina. North Carolina, obviously, the strategic partnership with National General has been instrumental to our market penetration there. So we're incredibly appreciative of the partnership that we've developed over the last 2 years with National General. We are looking at expanding that partnership in other states. It's been very symbiotic for both companies. And we do think that there are additional opportunities in the future to grow with National General and augment their need for a good homeowners carrier in some other states. So that's a process that we're undertaking right now.

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

The G&A in the quarter was a little lower than we've looked for, lower than it was in the first 6 months. Was that anything unusual there or is that kind of 8%, 9%? Is that sustainable?

Steven Martindale
Chief Financial Officer

Yes, that's about where we're right now. We just having reached some scales to the economy here, we were to be able to kind of just stay flat on the expenses.

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

And then the tax rate, as we think about that going forward amount, what's a good number?

Steven Martindale
Chief Financial Officer

What's that? 38.5.

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

And then with the rate hike for Citizens, are you anticipating that you might see some loss of policies there, your retention might drop or nowhere else to go?

Bruce Lucas
Chairman of the Board & CEO

In my opinion, it's hard to say, Mark, but I would not expect a meaningful movement in terms of the policy count down there. And the reason for that and, especially, if you look at it on a premium basis, I mean, if you had a little higher attrition there because you are getting a higher rate increase, they kind of balance one another out. I firmly believe that you have to price for the risk. And we're doing that, we are pricing for the risk and it's either going to be profitable book of business or we will not write it. So if there is attrition in that book of business, because there is a roughly 15% overall rate increase in the Tri-County, then there is attrition. And somebody else can pick it up at a lower price and lose money on it. That would be great for them and that's something that we're just not willing to do. So if there is a little bit of attrition there, we're okay with that. It's about bottom line profits, it's about making money and pricing for the risk and that's something that we've had as a core DNA of our business mentality since day one. So that's okay with us. If we have fewer policies there, it will actually -- if we're not getting the right rate, you could actually have fewer policies and make more money than you would having more policies and not getting enough rate. And that's really the focus that we have.

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

And then final question. Capital management, are you seeing M&A opportunities out there? And if not, what's your view on those share buybacks at this point?

Bruce Lucas
Chairman of the Board & CEO

Yes, there are definitely M&A opportunities out there. But I'm also looking at this, Mark, and saying, our share price right now is 10% below our book value. And we're not losing money around here, we're making money. So we're accreting to book value every quarter. So the shares right now, from our standpoint, they're the cheapest they've ever been. And I don't know if that's just a reaction to 2 hurricanes and what that does to our book value, but we're not seeing an erosion in book value. And so at 0.9x book, that's an incredibly attractive point from our standpoint to increase the share repurchase program.

Operator

And the next question will be from James Naklicki of Citi.

James F. Naklicki
Citigroup Inc, Research Division

My first question relates to the rate increase here. So if you look at the Citizens HO3 business, what sort of core loss trend has that business been producing this year so, particularly, like if you strip out the cats for the year, what's been the core loss trend there?

Bruce Lucas
Chairman of the Board & CEO

The loss ratio has been about 38.

James F. Naklicki
Citigroup Inc, Research Division

Okay. But how about the loss trend that would sort of be comparable to the 9.9% rate increase you're going to get?

Bruce Lucas
Chairman of the Board & CEO

Yes. I mean...Go ahead Steve.

Stephen L. Rohde
Advisory

You know, if we're looking at year-over-year, right now we're running like essentially like a 38% loss ratio for our personal lines homeowners business in Florida. If you go back to the third -- second quarter of 2015, before we started seeing the increase in AOB, that was running a 34% type loss ratio. And then prior in 2014, we were running in the, like, 28% loss ratio. So we've gone from 28% loss ratio in 2014 to now like a 38% loss ratio in 2016. And that really started changing in the second quarter of 2015, when the AOB became an issue. And again, we didn't realize that. At the second quarter 2015, is really when we got the development in fourth quarter and the first quarter of 2016.

Bruce Lucas
Chairman of the Board & CEO

Yes. So if we look at it, probably, 10 points or so in terms of the increase from loss ratio over a 2-year period. So if you average it out, maybe, it's a 5-point per year average, and we're getting 15 point rate increase there. And we're just looking at this and saying, we've got to be ahead of the curve. And until the legislature in South Florida decides to get their act together and do something to curb the abuse, rates are going to go up on their constituency. And I see that some of these guys had a little trouble on the reelection last night, and I know that the rising insurance premiums were part of it. Maybe they shouldn't have blocked AOB last year, they'd probably still be in office. So we're really looking at some substantive changes out of the legislature to address this. I can tell you from speaking off the record to several of the leaders in both the house and the senate, they are very, very much in support of comprehensive AOB reform this session. So I'm glad to see that, and we're cautiously optimistic that we may actually see a fix this session, but it's Tallahassee politics and until you get up there in the thick of things, you never know what's going to happen.

James F. Naklicki
Citigroup Inc, Research Division

Got you. And when you think of your pricing strategy, you're targeting some sort of combined ratio. So would it be -- should we be assuming that there could be as much as a 10-point improvement in the combined ratio next year to something in the low 80s? Is that realistic or do you think that there's still going to be issues and it will be more like -- it will improve, but not by that much?

Bruce Lucas
Chairman of the Board & CEO

Yes. We've ran combined ratios in the past in the upper 70s, low 80s, because of the economic benefits of Citizens depopulation, and the way that works with the 0 ceding commission and no-expense ratio and no reinsurance cost, et cetera, it does move that number down, and on a normalized basis, you're probably upper 80s, low 90s, I'd probably say. Guys, what do you think?

Stephen L. Rohde
Advisory

Our target is an 85 combined ratio when we look at all our products. This year we're closer to the 90 because of the AOB issues as well as hurricane issues as well. But with this rate increase, we'd expect us to get back down to the, assuming no hurricanes in 2017, to about 86% to 87% combined ratio.

Operator

And, ladies and gentlemen, that will conclude our question-and-answer session. I would like to hand the conference back over to Bruce Lucas for his closing remarks.

Bruce Lucas
Chairman of the Board & CEO

I would like to thank, everyone, for joining our third quarter earnings call.

Operator
Thank you. Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.