S&P Capital IQ

CONTENTS

Universal Insurance Holdings, Inc. NYSE:UVE

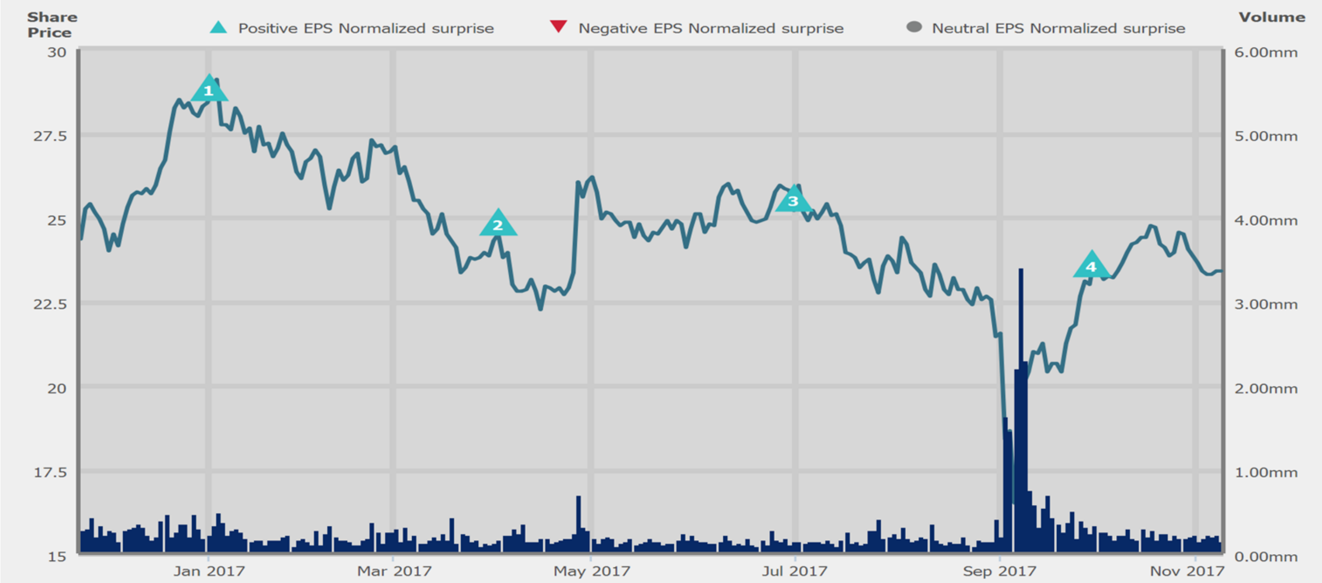
FQ4 2017 Earnings Call Transcripts

Wednesday, February 21, 2018 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-	-FQ1 2018-	-FY 2017-			-FY 2018-
	CONSENSUS	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.80	1.07	2.72	3.12	▲14.71	4.03
Revenue (mm)	-	-	741.21	751.92	▲1.44	-

Currency: USD
Consensus as of Feb-21-2018 11:52 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	0.20	0.38	▲90.00 %
FQ1 2017	0.70	0.86	▲22.86 %
FQ2 2017	0.73	0.82	▲12.33 %
FQ3 2017	0.23	0.28	▲21.74 %

Call Participants

EXECUTIVES

Dean Evans
Vice President of Investor Relations

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Jon William Springer
President & Chief Risk Officer

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

ANALYSTS

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

Ronald David Bobman
Capital Returns Management, LLC

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Universal Insurance Holdings, Inc. Fourth Quarter 2017 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Vice President of Investor Relations, Mr. Dean Evans. Sir, you may begin.

Dean Evans
Vice President of Investor Relations

Thank you. Good morning, everyone. Welcome to the Fourth Quarter 2017 Earnings Conference Call for Universal Insurance Holdings, Inc. My name is Dean Evans, and I am that Vice President of Investor Relations here at Universal. With me in the room today are Chairman and Chief Executive Officer, Sean Downes; President and Chief Risk Officer, Jon Springer; and Chief Financial Officer, Frank Wilcox. Following Sean's opening remarks, Jon will provide an update on several important current topics and Frank will review financial results. The call will then be reopened for questions.

Yesterday afternoon, we issued our press release, which is available under the press release's section of our website at www.universalinsuranceholdings.com. A replay of this presentation will be available on the homepage of our website until March 8, 2018.

[Technical Difficulty]

Operator

Good day, ladies and gentlemen, and welcome to the Universal Insurance Holdings, Inc. Fourth Quarter 2017 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Vice President of Investor Relations, Mr. Dean Evans. Sir, you may begin.

Dean Evans
Vice President of Investor Relations

Thank you. And good morning, again, everyone. We do apologize for the inconvenience there. We had a temporarily -- temporary power outage and lost our phone system entirely. But we are back now. And I'd like to welcome you again to the Fourth Quarter Earnings Conference Call for Universal Insurance Holdings, Inc. I -- again, I'm Dean Evans, Vice President of Investor Relations here at Universal. With me in the room today, Chairman and Chief Executive Officer, Sean Downes; President and Chief Risk Officer, Jon Springer; and Chief Financial Officer, Frank Wilcox.

Following Sean's opening remarks, Jon will provide an update on several important current topics, and Frank will review financial results. The call will then be reopened for questions.

Yesterday afternoon, we issued our press release, which is available under the press release's section of our website at www.universalinsuranceholdings.com. A replay of this presentation will be available on the homepage of our website until March 8, 2018.

Before we begin, please note that this presentation may contain forward-looking statements about our business and financial results. Forward-looking statements reflect our current view of future events and are typically associated with words such as believe, expect and anticipate or 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 filings with the Securities and Exchange Commission, which are available on the SEC's website or the SEC filings section of our website. We do not undertake any obligation to update or correct any forward-looking statements.

With that, I would like to turn the presentation over to our Chairman and Chief Executive Officer, Sean Downes.

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

Thank you, Dean, and thank you, everyone, for joining us today. Before we begin, all of us at Universal would like to send our heartfelt condolences to the victims and families of the Marjory Stoneman Douglas High School shooting. Parkland is part of our community where our employees and families reside, and we're all deeply saddened by this tragedy. We ask that all of you keep the great people of this community in your prayers.

I'll begin by providing some highlights in the quarter, and we'll then review our growth initiatives and strategy. Jon will cover several important current topics and Frank will conclude by discussing financial results.

We were pleased with our results for the fourth quarter and, for that matter, for the full year 2017. Overall, we reported net income of $36.4 million and diluted EPS of $1.03 for the fourth quarter of 2017, which equates to an ROE of 33% for the quarter. For the full year, we generated a net income of $106.9 million and diluted EPS of $2.99, and 25.7% ROE.

Although Hurricane Irma made landfall during the third quarter, there were numerous moving parts in the fourth quarter related to the storm, which Jon and Frank will discuss in more detail later in the call. However, I would like to briefly touch on a few high-level thoughts related to the event.

In the months since Hurricane Irma made landfall, Universal has demonstrated the true value of our business model. Our comprehensive reinsurance program substantially limited net losses incurred from one of Florida's largest hurricanes in over a decade.

Our fully integrated structure produced various income streams in the months following the storm and our superior claims handling and catastrophe response teams delivered excellent service to our policyholders in the aftermath of the devastating storm, closing claims in a timely and orderly manner.

In addition to our strong performance during Hurricane Irma, we were also pleased with our underlying results for the fourth quarter. We reported excellent top line growth in the quarter, with 12.5% growth in direct premiums written, including 9.4% growth within Florida and 36.8% growth in Other States.

Our underwriting profitability was also strong, with a 77.6% combined ratio for the quarter and an 84.4% combined ratio for the full year, the latter of which is particularly notable given that this was a year that saw the largest hurricane make landfall in Florida in over a decade.

Additionally, during the fourth quarter, we took decisive action to strengthen our loss reserves for both current and prior accident years. This strengthening was driven primarily by the assignment of benefits-related claims within our Florida book, including the increased litigation frequency experienced during 2017 surrounding the AOB issue. Following this adjustment, we believe our loss reserves are appropriately set at current levels.

I'd like to now briefly discuss our growth outlook heading forward. We believe we have positioned Universal well for the future by pursuing various organic growth avenues, which have resulted in a more stable, diversified and balanced business. Our core Florida book continues to produce strong organic growth, with direct written premiums up 9.4% in the fourth quarter and 7.4% in the full year 2017.

We continue to believe that we can profitably grow on an organic basis in Florida using both our robust agency network and our direct-to-consumer platform, Universal Direct. Our 3.4% average statewide rate increase was approved by the Florida OIR in early December and we began using the new rates for new business on December 7 and for renewals on January 26.

Geographic expansion remains a key element of our growth strategy. In direct premiums written within our Other States book grew a strong 36.8% in the fourth quarter and 40.4% for the full year 2017. After writing our first policy in New York in October, Universal was currently writing business in 16 states and is licensed in additional 4 states: Illinois, Iowa, New Hampshire and West Virginia.

Universal Direct, our unique direct-to-consumer online homeowners insurance platform, is available in all of our active states and continues to demonstrate its solid growth trajectory. Since launch, we have nearly 8,000 policies in force for more than 9 million in premium. We remain confident that this multipart organic growth strategy positions us well to deliver profitable growth going forward.

After a year that posted numerous challenges in the insurance industry, including Hurricane Irma, several other significant hurricanes and a few other substantial catastrophic events, we feel extremely confident that Universal is well-positioned for the future. We have a prudent organic growth strategy with a focus on underwriting discipline and writing profitable and rate-adequate business.

We distribute our products within both Florida and our 15 other active states through a robust network of independent agent partners as well as our unique direct-to-consumer platform, Universal Direct. Our vertically integrated structure allows us to provide superior customer service, reduce costs for both ourselves and our reinsurance partners and remain extremely nimble.

Our first-class claims operation is focused on timely claims handling and providing outstanding service to our policyholders. We have a strong balance sheet protected by a comprehensive reinsurance program and last, but certainly not least, we have a deep and experienced management team that guides our more than 550-dedicated employees as we collectively strive to continue building Universal into a world-class organization.

With that, I will turn the call over to Jon Springer.

Jon William Springer
President & Chief Risk Officer

Thank you, Sean. I would like to start with some additional color surrounding the impact from Hurricane Irma, then talk a little bit about our reserve position and, lastly, touch on the reinsurance pricing environment.

Hurricane Irma made landfall in Florida on September 10 as a Category 4 storm and was a devastating event throughout the state. Despite Irma causing substantial losses, the ultimate net financial impact to Universal was substantially limited by both our comprehensive reinsurance program and benefits received as a result of our vertically integrated structure.

We currently estimate $447 million of gross loss and LAE from Hurricane Irma, including $445 million from Universal Property & Casualty and $2 million from American Platinum Property and Casualty. Our all states reinsurance program performed as expected, limiting net losses and loss adjustment expenses from Hurricane Irma to $37 million, our maximum retention.

In addition, because gross losses and LAE in states outside of Florida are projected to be $12.8 million, or $7.8 million above our $5 million retention, additional recoveries from our Other States reinsurance program during the fourth quarter served to reduce Universal's aggregate retention from $35 million to $27.2 million, or an overall retention of $29.2 million when you include American Platinum's retention of $2 million.

Further, because Hurricane Irma satisfied an otherwise recoverable provision of our Other States reinsurance program, our retention in states outside of Florida was reduced from $5 million to $1 million for all non-Irma events. This change resulted in an effective savings of $1.4 million recorded in the fourth quarter of 2017 due to the Minnesota hailstorm, which had occurred in June of 2017. Our Other States reinsurance program will continue to have a net retention of $1 million for events through May 31, 2018, as a result of this otherwise recoverable provision having been satisfied.

As of the close of business yesterday, we have had 69,449 reported Irma claims, with current paid loss, loss adjustment expense and case reserves of $392 million. From a severity perspective, on a nearly 60,000 claims closed to date, we're averaging 4,733 of loss and loss adjustment expense per claim. These numbers include 24,000 claims that have been adjusted, reviewed and closed with no indemnity payment, primarily due to the loss falling below the policy's hurricane deductible.

As we previously discussed, Universal benefits from our vertically integrated structure by retaining certain revenues and/or fees paid to our subsidiary service providers for various services provided, including reinsurance brokerage, claims adjusting and other services. This benefit is particularly notable during large catastrophic events such as Hurricane Irma, which resulted in a substantial number of claims leading to increased activity at our service company subsidiaries.

As a result of Hurricane Irma, the fourth quarter and full year 2017 included the benefit of additional revenues within our service provider subsidiaries, which led to a higher level of profitability than would otherwise be the case in a normal quarter or year. In particular, Universal Adjusting Corporation, which manages our claims processing and adjustment functions, experienced a significant increase in workflow, revenues and net profit in the months following the storm due to a substantial increase in level of claims activity.

Additionally, Blue Atlantic Reinsurance Corporation generated approximately $2 million related to reinstatement premium commissions. In total, we estimate these additional revenues at service company subsidiaries resulted in approximately $35 million of net pretax benefit during the fourth quarter of 2017.

Lastly, Hurricane Irma resulted in various other effects on our ongoing basis, and in particular, we experienced an increased level of both new and renewal business as well as a corresponding increase in policy fee income during the quarter ending September 30, '17, and quarter ending December 31, '17.

Stepping back for a moment to tie all these moving parts together, the initial loss -- excuse me, the initial net loss and LAE we reported in the third quarter of '17 related to Hurricane Irma was $37 million. This amount was partially offset during the fourth quarter by favorable revisions to ceded loss and LAE of $9.2 million to reflect recoveries related to our Other States reinsurance program.

Our service company subsidiaries generated substantial additional revenues following Hurricane Irma that led to approximately $35 million of estimated pretax profit during the fourth quarter of 2017. In total, for the year ending December 31, '17, we estimate that Hurricane Irma had an aggregate net benefit on our financial results of approximately $7.2 million on a pretax basis.

Turning now to loss reserve. Fourth quarter 2017 results include $26.2 million of unfavorable prior year reserve development related to accident years 2013, 2015 and 2016, driven primarily by assignment of benefits-related claims within our Florida book, including the increased litigation frequency experienced during 2017 surrounding the AOB issue.

Additionally, fourth quarter 2017 results also include $18.3 million of current accident year reserve strengthening, also driven primarily by AOB-related claims. We believe our loss reserves are appropriately set at current levels following these adjustments.

The 2013 through 2016 accident years are well seasoned at this point. In total, as of year-end, we had less than 1,700 non-cat claims reported and outstanding for the 2013 through 2016 accident years, which is only 1.57% of the total claims received for those 4 accident years in the aggregate.

And looking closer at the open claims for these 4 accident years, it is important to appreciate that we have already paid out $19.2 million in the form of partial payments on these claims, and have an additional $9.3 million of case reserves attributable to them. On average, we are setting aside 17,000 per claim for these open claims, which compares to our total average claim cost of $9,340 during the same 4 accident years.

Also, beyond these specific case reserves, we have an additional $10 million set aside for IBNR to handle claims yet to be reported. To put some further context around these numbers, the expected amount of ultimate incurred loss and LAE for the 2013 through 2016 accident years is $991 million, including this adjustment.

We have increased the loss picks for these accident years by 0.8 percentage points on average from the loss pick that was established at the end of 2016. This is on a direct earned premium base of $3.3 billion during the accident years 2013 through 2016. The total prior year reserve adjustment we recorded in the fourth quarter accounts for 1.5% of the total net earned premiums of $1.7 billion during that same time frame.

Our reserve adjustments during the fourth quarter bring us to a level that is $5 million above the best estimate of our outside actuaries.

Lastly regarding the reinsurance pricing environment, we are in the early stages of the 2018 reinsurance renewal, so there continues to be some uncertainty around how catastrophe pricing levels will change. But as a reminder, we have significant capacity with predetermined pricing already secured.

As we discussed on last quarter's conference call, 35% of our total open market catastrophe capacity has pricing fixed at 2017 or prior pricing levels. More importantly, nearly 60% of the capacity in the layers estimated to be impacted by Hurricane Irma has pricing levels fixed at 2017 or prior pricing levels. This continues to be the area most likely to see pricing changes.

This multiyear strategy will significantly minimize the financial impact of any upward pressure on catastrophe reinsurance pricing. Taking into account this multiyear capacity and the coverage we purchased from the state-run Florida Hurricane Catastrophe Fund, we will have just 32% of our total reinsurance premium budget subject to any effect on pricing of open market catastrophe for the 2018/2019 reinsurance program.

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

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Thank you, Jon. For the fourth quarter of 2017, net income totaled $36.4 million, an increase of 166.5% compared to the fourth quarter of 2016, in large part as the prior year's quarter's results included the impact of Hurricane Matthew. Diluted EPS was $1.03, up from $0.38 for the fourth quarter of 2016.

We reported strong total revenue growth of 12.4% for the quarter, with increases in every major category of revenue compared to the prior year's quarter. Direct premiums earned of $263.4 million, offset by ceded premiums earned of $79.7 million, generated $183.7 million of net earned premiums for the fourth quarter of '17 compared to $164 million in the fourth quarter of '16.

The increase was the result of organic growth from both Florida and Other State growth initiatives as well as increased new and renewal premiums in both in the third quarter and fourth quarter of our Florida book surrounding Hurricane Irma. Ceded premiums earned, as a percent of direct premiums earned, was 30.3% during the fourth quarter of 2017 compared to 31.3% in the fourth quarter of 2016.

Commission revenue of $6.7 million for the quarter grew $1.9 million or 39.5% compared to the same quarter in 2016, driven by the benefit of $2 million of fee income related to reinstatement commissions received by Blue Atlantic during the fourth quarter of 2017.

Policy fees of $4.2 million for the quarter grew 12.1% year-over-year, reflecting an increase in the number of policies written compared to the prior year's quarter. Other revenues were $2.1 million, growth of 30% or $0.5 million from the prior year's quarter.

Net investment income for the quarter was $4.4 million, growth of 27.5% from the fourth quarter of 2016. This increase reflects actions taken to maximize yield, while maintaining high credit quality as securities mature as well as the growing size of our investment portfolio and the benefit -- the beneficial impact of rising interest rates. We realized $100,000 of investment gains during the quarter compared to $1 million of realized investment gains in the fourth quarter of 2016.

We generated a net combined ratio of 77.6% in the fourth quarter of 2017 compared to 95% in the fourth quarter of '16. The net loss and LAE ratio was 45.3% compared to 61.9% in the prior year's quarter. The fourth quarter of '17 included a benefit of $9.2 million or 5 points of recoveries received from our reinsurance program related to Hurricane Irma, compared to $26.6 million or 16.2 points in the fourth quarter of '16 from Hurricane Matthew.

The fourth quarter of '17 results include $26.2 million or 14.3 points of unfavorable prior year reserve development. As Jon discussed earlier, the development related to accident years 2013, '15 and '16, driven primarily by assignment of benefit-related claims within our Florida book, including increased litigation frequency experienced during 2017 surrounding the AOB issue. Fourth quarter 2016 results included $4.5 million or 2.8 points of favorable prior year reserve development.

Lastly, the fourth quarter of 2017 results include $18.3 million or 9.9 points of current accident year reserve strengthening, also driven by AOB-related claims, while the fourth quarter of 2016 included $16.8 million or 10.2 points of current accident year reserve strengthening.

Our net expense ratio was 32.3% in the fourth quarter of '17 compared to 33.1% in the fourth quarter of '16. Our net policy acquisition cost ratio remain relatively flat at 20.7% in the fourth quarter of '17 compared to 20.4% in the fourth quarter of '16.

Our other operating expense ratio was 11.6% in the fourth quarter of '17 versus 12.7% in the prior year's quarter, which continues to reflect economies of scale as well as increased earned premium volume in the fourth quarter of '17 relative to the fourth quarter of '16.

Additionally, our service company subsidiaries generated substantial additional revenues following Hurricane Irma that led to approximately $35 million or 19.1 points of estimated pretax profit generated by service company subsidiaries during the fourth quarter of 2017, which were reflected predominantly in loss adjustment expenses and, to a much lesser extent, in general and administrative expenses.

The effective tax rate for the fourth quarter of 2017 was 37.9% compared to 39.9% in the prior year's quarter. The current year's quarter includes several discrete items, which, in the aggregate, reduced our income taxes by approximately $200,000 or an impact of 0.3 percentage points for the quarter.

Discrete items include a credit to income tax expense of $5 million for excess tax benefits resulting from stock-based awards divested and/or were exercised during the fourth quarter, largely offset by a deferred tax asset remeasurement of $4.7 million related to tax reform legislation passed in December 2017.

In late December, the Tax Cuts and Jobs Act of 2017 was signed into law, which, among other items, included a reduction in the federal corporate tax rate from 35% to 21% effective January 1, 2018. Although we anticipate an overall benefit from this lower corporate tax rate in 2018, we are unable to make definitive estimates on the impact of the reduction due to changes in interpretations, assumptions and additional guidance that may be issued by the IRS and/or the Financial Accounting Standards Board.

Our balance sheet remained strong and conservatively positioned. Total unrestricted cash and invested assets were $943.5 million at December 31, 2017, growth of $24.6 million -- 24.6% from December 31, 2017. We contain -- we continue to maintain a high-quality investment portfolio composed primarily of fixed maturity securities which are 99% investment grade, and we take a conservative approach to managing our investments.

The weighted average duration of the fixed maturity investments in our available-for-sale portfolio at December 31, 2017, was 2.6 years; while the annualized investment portfolio yield, defined as net investment income divided by average total invested assets and unrestricted cash, was 1.81% for the fourth quarter of 2017 versus 1.74% in the fourth quarter of '16.

Stockholders' equity was $440 million at December 31, 2017, growth of 4.6% from September 30, 2017 and 18.5% from December 31, 2016. Combined surplus for our insurance subsidiaries was $324 million at

December 31, 2017, compared to $336 million at September 30, 2017, and $331 million at December 31, 2016.

Book value per common share was $12.67 as of December 31, 2017, growth of 3.7% from September 30, 2017, and 19.6% from December 31, 2016. We remain committed to actively managing our capital position and continue to take action on that front during both the fourth quarter and full year 2017.

During the fourth quarter 2017, we repurchased 10,000 shares for approximately $300,000 at an average cost of $25.71 per share. For the year ended December 31, 2017, we repurchased 770,559 shares for $18.1 million at an average cost of $23.54 per share. Our current share repurchase authorization program has $19.8 million remaining and runs through December 31, 2018.

During the fourth quarter, we paid both regular quarterly dividend of $0.14 per share and an additional special dividend of $0.13 per share. In aggregate, we paid a total of $0.69 per share of dividends during 2017, which equates to an annual dividend of -- yield of 2.8% based on the average UVE share price throughout the year.

Return on average common equity was 33% for the fourth quarter of 2017 and 25.7% for the full year 2017. We remain dedicated to providing value to our shareholders and believe this level of return on equity, particularly during a year that saw the most costly hurricane make landfall in our core market of Florida in over a decade, to be an excellent result.
At this point, I'd like to turn the call back to the operator.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Arash Soleimani with KBW.

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

First question, in terms of that $30 million -- about $35 million, I know $2 million of it came from Blue Atlantic. From that $33 million, can you just break out like exactly how much was in the loss and LAE line and how much was in the other operating expense line?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Yes, Arash, this is Frank. The vast majority, if not all of it, was generated by our subsidiary Universal Adjusting Corporation, which generated $33 million. There were some moving parts in G&A, but they were largely offset.

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

So it's fair to just assume all of it goes to -- all of the $33 million just goes to loss and LAE then?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Correct.

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

All right. And if I do that -- if I back out that entire amount, the $33 million from loss, if I back out the development, both from the current accident year and prior accident years, and I back out the $9.2 million recovery, I think I get to a 29.5% core or underlying direct loss ratio for the quarter, which seems better than that kind of like 30% to 32% range that I think you guys have guided to in the past. So I guess, 2 questions there is, one, given that you have this adverse development and you're saying there's like some heightened litigation and so forth, what's the new run rate kind of on a direct basis? Does that 30% to 32% still hold? Or do you think it'll be a bit higher than that going forward? How -- what's the right way to look at that?

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

Arash, this is Sean. Number one, obviously after a large catastrophic event, your attritional loss ratio was historically always lower, that's why you're seeing that 29-ish number, I believe, Q4. Going forward, we'll be running at 33%, that's 1.25 point higher than we had been running. That takes us in line, basically, to where we'd looked at our last -- or past years that are fully baked in, and we believe that's the current loss ratio we'll be using for 2018.

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

Okay. And I think you may have touched on this last quarter a bit also. But when we think about Irma, I mean, is -- are you seeing AOB play a part on those claims or not really?

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

Yes. We're looking at roughly, right now, about 12% of the 69-odd thousand claims so far have some sort of AOB connotations connected to them. So you figure that's right -- a little over 8,000 claims either has some sort of rep on it, contractor or public adjuster.

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

Okay. And I think Jon mentioned the average amount per claim, something in the -- I think was in the $4,000 range. What's the average if it's -- if we're looking for the average for claims closed with payment rather than all claims?

Jon William Springer
President & Chief Risk Officer

How about go ahead to your next question. I can dig that out for you quickly, Arash.

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

Okay. Sure, sure. So one of the questions, I think, a lot of people have been asking with a storm like Irma, obviously Irma could have been worse than if it hit Miami and maintained that kind of Cat 4, Cat 5 speed. Does that change how you look at your reinsurance spend? Does it make you say, "Hey, if it did hit, there is a possibility it could have exhausted the tower. So going forward, we might want to buy to a higher return period." Is that something that you look at differently now?

Jon William Springer
President & Chief Risk Officer

You were supposed to ask for somebody else than me, Arash, so I can look for the other one. No, that's all right. That's fine. Does it change how we look at it? No, probably not. I mean, obviously, we license both catastrophe models, so we're analyzing things. I mean, when you look at Hurricane Irma, that -- Hurricane Irma was a very significant storm and we're talking about utilizing approximately 15% of our catastrophe tower. So that's a long way from the top. Obviously direction can change that, wind speed can change that. But we'll continue to do a similar type of evaluation. And we'll look at the efficiency of the spend at the top end, if pricing levels are such that somebody offers us capacity at a level that makes sense, we may purchase some additional at the top. But we're pretty comfortable. I know we were comfortable as Irma was out there, and we're pretty comfortable with the decisions we've made in the past.

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

All right. I'll give you a break and bug Frank real quick. I just wanted to just touch base on the taxes again. I know you said that you guys aren't necessarily comfortable giving a hard-and-fast number for the tax rate going forward. But I mean, is there like a ballpark range you could give us of how we should be thinking about the impact of tax reform?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Yes. Well, I'll tell you what I can tell you, and tell you what I can't and why I can't. So let's just start out with the blended statutory federal and tax rate. So we know that the federal rate went down 14 percentage points. The benefit that -- on your federal income tax from your deduction of state income taxes goes the other direction a little bit. So the net benefit from the statutory rate is 13.3%. Now what I can't tell you are a lot of the unknowns. And those unknowns include continued guidance that might come from the IRS and how to interpret this new law and the effect that, that might have on our transactions as well as guidance that may come out from the FASB that could change how we account for certain elements of taxes going forward, in addition to certain unknowns about our transactions, which are affected by these changes in tax laws. As far as the rate going forward, what we did is when we exercised using 2016 as a proxy. And while I wouldn't hang your hat on this, if we were to take the tax law structure and apply that to 2017, we saw that there was a net reduction in the effective tax rate of around 10%. But I would put a wide range around that.

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

Okay. And obviously, I know you guys can't speak for the OIR per se. But obviously, in California, there's talk of the regulators sort of pressuring -- or potentially pressuring insurers to share tax reform with the policy holders. Do you think there's a risk of that in Florida? Or based on the AOB environment and how everyone's kind of raising rates now, does it look like, regardless of tax reform, AOB will continue to result in the OIR being kind of lenient in the sense of allowing rate increases to continue?

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

I think it's too early really to determine that. Obviously, we're in the middle of a legislative session currently right now, Arash. I just am not -- we're not in the predictive business, but I would tell you that, obviously, right now, there doesn't seem anything to be solid right now that is gaining any ground as it relates to any type of AOB reform. That's really all I could give you as it relates to that.

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

Okay, that's fair. All right. Well...

Jon William Springer
President & Chief Risk Officer

Arash, to answer...

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

Yes, go ahead.

Jon William Springer
President & Chief Risk Officer

To answer your earlier question, we've closed 34,500 claims with payment for an average loss and LAE of just over $7,400 per claim.

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

Okay. No, that's helpful. And I just remembered one other thing I wanted to ask. In terms of your reinsurance spend that -- what you're looking at for June 1, you mentioned on the last call that a lot of your programs is on a multiyear basis, so a lot of it won't be exposed to any potential rate increases. Obviously, the kind of momentum that the reinsurers have had has kind of died down lately. I mean, do you even expect to get a rate increase on the portion of your program that is subject to market rates?

Jon William Springer
President & Chief Risk Officer

It really is too early to tell. I mean, as I said in my pre-prepared remarks, it's what we know for certain. And that's that a little less than 1/3 of our reinsurance spend is all that would be subject to any upward adjustment. We also know that reinsurers are looking closely at how companies handled this past event. And obviously, we feel very confident in our response to Hurricane Irma. So we feel like we will -- we'll do as well as anybody will in this upcoming renewal.

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

Right. And how likely is the FHCF to raise rates? Or is that something that would probably stay flat because it's not really subject to market forces?

Jon William Springer
President & Chief Risk Officer

We wouldn't expect any changes in FHCF rates for this upcoming year.

Operator

Our next question comes from Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I had a question on the -- I guess, it's sort of driven by the AOB reserving actions that you took. Is that going to drive your rate need indications, I guess, particularly in Tri-County, and drive you to put in for additional rate increase request with the state?

Jon William Springer
President & Chief Risk Officer

Well, certainly, additional losses go to the ratemaking formula. As Sean alluded to, we did just secure a rate increase that we just started charging on new business in December and renewals in January, that included a meaningful increase in the Tri-County. So we will have to play through the next set of data to know for sure. But obviously increased losses can drive additional rating.

Ronald David Bobman
Capital Returns Management, LLC

Okay. How about -- I'll sort of jump around a little bit. The -- what's the holdco cash balance? Cash invested, I guess, you'd call it.

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Ron, I'll be back. Hang on a moment here.

Ronald David Bobman
Capital Returns Management, LLC

I can move on and try to ask someone else a question, while you do that.

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

Please.

Jon William Springer
President & Chief Risk Officer

Yes, please.

Ronald David Bobman
Capital Returns Management, LLC

The subrogation reserving process, I'm just wondering if there's any changes to your assumptions there as that program has sort of rolled out and developed and progressed.

Jon William Springer
President & Chief Risk Officer

No. This was our second full year of analyzing that or our outside actuaries analyzing that. So although there's some minor adjustments here or there, but we're very encouraged with our subro collection process. We were able to secure 20% more recoveries in 2017 than 2016. And we have an expectation that, that percentage will be even higher in '18.

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

Just for some clarity, Ron, we brought and closed roughly $24 million so far the last 2 years. And we feel that, that number, again, as Jon said, will continue to trend positively because of the work we've done earlier in the last couple of years, and we'll start to see that work in the actual final number baked in. So we're pleased with the results.

Ronald David Bobman
Capital Returns Management, LLC

The $24 million, is that -- okay. Go ahead, Frank. Sorry.

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

I'm sorry to interrupt, I just wanted to give you the answer to your question. It was $67.5 million of cash at the holding company.

Ronald David Bobman
Capital Returns Management, LLC

Okay. Sean, the $24 million, is that a 2-year number or $24 million each year?

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

$24 million is a 2-year number as -- basically as of the end of '17.

Ronald David Bobman
Capital Returns Management, LLC

Got you. Okay. In the press release, there is a reference to the reserves being set above the actuarial best estimate. I assume for you making a noteworthy comment that it's not just a hair over the -- a hair above the best estimate. Would you quantify it or give some indication of the magnitude of conservatism above the best estimate?

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

$5 million.

Ronald David Bobman
Capital Returns Management, LLC

Okay. The -- Sean, you mentioned that sort of the AOB -- the incidence of AOB in the Irma claim population was about 12% currently. In the ordinary course of sort of typical attritional losses, non-cat losses, what's that sort of comparable incidence percentage?

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

20%.

Ronald David Bobman
Capital Returns Management, LLC

20%. So it's higher in a non-cat scenario. Okay.

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

Yes. The large deductible plays a role in that, on the cat side. The -- whoever it may be is not as eager to participate in that claim due to the large size of the deductible.

Ronald David Bobman
Capital Returns Management, LLC

Oh, I see. Okay, that makes sense. And my last question is can you talk about the direct initiatives, the states where you're either forecasting or experiencing the greatest amount of growth and traction? And obviously, there's been some losses. For example, California's gone through a brutal year with the wildfires, and I'm sure there's sort of some degree of dislocation there. As well as in Other States where there's been cat events, Texas, I presume, with Harvey. Are those geographies or others I'm not thinking of that are particularly sort of fertile ground for '18 and '19 as a result? And I'm done.

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

Yes. Obviously, from a direct perspective, Florida is our biggest market, obviously, then Georgia, Pennsylvania and South Carolina falling behind there. We haven't really come to a final conclusion on how we are really going to pursue Universal Direct. We've had a lot of different potential offers with Universal Direct to figure out the best way to fully implement that and the best way, obviously, that we feel that it'll benefit the parent company. So moving forward, we are open to many different avenues and cross-selling different products as well as products that are the same as ours from competitors. So to give you the exact answer of that, we have a lot of things that we're working on, but nothing I can give it to you right now, concrete.

Ronald David Bobman
Capital Returns Management, LLC

Okay. And I'm sorry, there was -- I actually have one more question. You mentioned in the press release the impact on premium volume in Q4 by virtue of the DFS order of non -- prohibiting noncancellations. Do you think there's a sort of a secondary adverse impact on the business that you were forced to renew or maintain that would have otherwise canceled? Is there any sort of adverse underwriting margin that we should be thinking about, you're thinking about or that you already experienced in fourth quarter as a result of that? And then somewhat related, what would your estimate be on premium growth if that order had not been put in place?

Jon William Springer
President & Chief Risk Officer

Yes, I don't think that the order necessarily drove a material increase. I mean, if you look at how we were growing the first 3 quarters, the fourth quarter was marginally larger. In terms of any adverse impact on that type of business, that remains to be seen. You'll have to ask that question in another year or so. I don't think given the size of our book of business and the number of policies that we're talking about, I don't think it would ever be anything that will be material to our results.

Operator

And that does conclude our Q&A session for today. I would now like to turn the call back to Mr. Sean Downes for any further remarks.

Sean Patrick Downes
Chairman of the Board & Chief Executive Officer

As always, in closing, I would personally like to thank all of our shareholders, employees, Board of Directors, policyholders and my management team for their hard work and loyalty to Universal. This concludes the call. Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program, you may all disconnect. Everyone, have a great day.