S&P Global
Market Intelligence

Hippo Holdings Inc. NYSE:HIPO

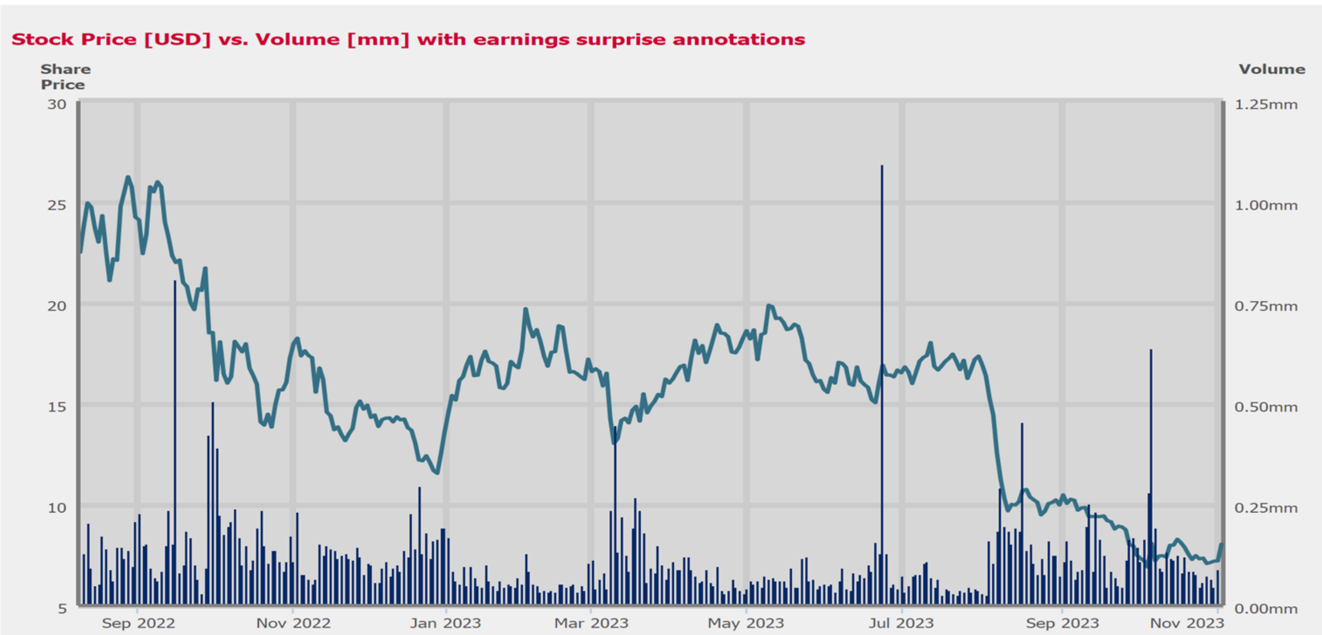
FQ3 2023 Earnings Call Transcripts

Thursday, November 2, 2023 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(2.55)	NA	NA	(2.61)	(11.55)	NA
Revenue (mm)	47.40	NA	NA	54.54	202.02	NA

Currency: USD
Consensus as of Oct-25-2023 11:02 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2022	(2.84)	(3.21)	NM
FQ4 2022	(2.63)	(2.70)	NM
FQ1 2023	(2.32)	(2.91)	NM
FQ2 2023	(2.55)	(4.46)	NM

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Call Participants

EXECUTIVES

Clifford Henry Gallant
Vice President of Investor Relations

Richard Lyn McCathron
President, CEO & Director

Stewart Andrew Ellis
CFO & Treasurer

ANALYSTS

Alex Scott

Karol Krzysztof Chmiel
JMP Securities LLC, Research Division

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Welcome, everyone, and thank you for attending today's Hippo Holdings Third Quarter 2023 Earnings Call. My name is Sierra, and I will be your moderator today. [Operator Instructions] I would now like to pass the conference over to our host, Cliff Gallant, Vice President of Investor Relations.

Clifford Henry Gallant
Vice President of Investor Relations

Thank you, Operator. Good afternoon, everybody, and thank you for joining Hippo's third quarter earnings conference call. Earlier, Hippo issued a shareholder letter announcing its results, which is available at investors.hippo.com. Leading today's discussion will be Hippo's Chief Executive Officer and President, Rick McCathron; and Chief Financial Officer, Stewart Ellis. Following management's prepared remarks, we will open up the call to questions.

Before we begin, I'd like to remind you that our discussion will contain predictions, expectations, forward-looking statements and other information about our business that are based on management's current expectations as to the date of this presentation. Forward-looking statements include, but are not limited to, Hippo's expectations or predictions of financial and business performance and conditions and competitive industry outlook. Forward-looking statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from historical results and/or from our forecast, including those set forth to Hippo's Form 8-K filed today. For more information, please refer to the risks, uncertainties and other factors discussed in Hippo's SEC filings, in particular, in the section entitled Risk Factors. All cautionary statements are applicable to any forward-looking statements we make whenever they appear. You should carefully consider risks and uncertainties and other factors discussed in Hippo's SEC filings. Do not place undue reliance on forward-looking statements as Hippo is under no obligation and expressly disclaims any responsibility for updating, altering or otherwise revising any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

During this conference call, we will also refer to non-GAAP financial measures such as total generated premium and adjusted EBITDA. Our GAAP results and description of our non-GAAP financial measures with a full reconciliation of GAAP can be found in the third quarter 2023 shareholder letter, which has been furnished to the SEC and available on our website.

And with that, I'll turn the call over to Rick McCathron, our President and CEO.

Richard Lyn McCathron
President, CEO & Director

Good afternoon. Q3 2023 was Hippo's best quarter yet. The most predictable and profitable parts of Hippo, our services and Insurance as a Service segment continued to drive our growth and now represents 65% of our premiums in force, up from 52% a year ago. The actions we are taking in our homeowners insurance business to lower its volatility and improve its profitability are working. Our Q3 '23 adjusted EBITDA loss was Hippo's smallest as a public company, and we are on pace to turn positive earlier than previously projected.

After a challenging first half of 2023 for the U.S. homeowners insurance industry, Hippo has taken bold steps to position itself for a period of extended growth and profitability. In August, we temporarily paused the underwriting of most new business. We're assessing our underwriting and risk appetite and only writing new business where we are very confident in its expected profitability and reduced volatility.

For our renewal book, we're raising rates, increasing deductibles and when necessary, nonrenewing some policies. While we expect to see a decline in Hippo's home insurance programs total generated premium in 2024, we expect that to be driven by a disproportionate decline in exposure and volatility and a significant improvement in underwriting profitability. We have already begun to see the benefits of actions taken in 2022 and early 2023 to improve our loss ratio. And we expect significant additional improvement to come.

Our consolidated gross loss ratio in the quarter was 59%, a 51 percentage point improvement over a year ago. And our net loss ratio improved even more significantly year-over-year, declining 112 percentage points to 111. HHIP's core gross loss ratio in the quarter, which excludes prior year reserve movements and PCS cats improved 13 percentage points to 69%, down from 82% in the prior year quarter.

We had another outstanding quarter in our Insurance as a Service segment with positive adjusted operating income of $4 million and exceptional TGP growth of 72%. In a market with highlighted concerns about credit risk exposures, Spinnaker continues to demonstrate strong risk management capabilities and underwriting controls while driving profitable growth.

In our fee-based services segment, the success of our builder agency business is providing a repeatable playbook for our entire agency business. As HHIP's risk appetite narrowed, our builders agency successfully placed business with third-party carriers to keep the premium retention rate at 97% for the quarter. At First Connect, agency appointments are up 3x, and we saw growth of more than 180% in our non-Hippo new business versus the prior year.

As we have focused our underwriting footprint and intensified our emphasis on expense control, we are announcing a significant expense reduction initiative, which we expect to take $50 million to $70 million out of our cost structure in 2024. We expect these savings, coupled with further loss ratio improvements and growth in our Insurance as a Service and Services segment to result in positive adjusted EBITDA before year-end 2024, turning positive earlier than we previously projected.

Finally, I extend our condolences to many Israeli members of our Hippo family and friends and partners impacted by the horrible events over the past several weeks. Thank you.

I'll now turn the call over to Stewart.

Stewart Andrew Ellis
CFO & Treasurer

Thanks, Rick. Our Q3 2023 adjusted EBITDA loss of $38 million was our best yet as a public company, and we expect even stronger results in the coming periods. These improvements will be driven by continued improvements to the Hippo Home Insurance Program loss ratio, significant operating expense savings, growth in our Insurance as a Service segment, which is already profitable and growth in our Services business, which will turn closer to adjusted operating income positive in 2024. We now expect to be reporting positive adjusted EBITDA earlier than the end of 2024, while affirming our expectation of minimum cash and investments of at least $350 million.

On a consolidated basis, year-over-year growth remained strong. TGP was up 38% to $304 million, driven primarily by our most profitable and most predictable segments, which now represent a significant majority of our total business. Revenue was up 88% over the prior year to $58 million, primarily driven by growth in premiums earned and organic growth in both our Insurance as a Service and Services segment. Additionally, revenue has benefited from an increase in investment income to $6 million from $3 million in the year ago quarter as we have taken advantage of more attractive yields.

We will continue to push for growth in our profitable Insurance as a Service segment and view growth as an important lever to driving positive adjusted operating income in our Services segment. Our narrower risk appetite and focus on lowering our exposure to weather will result in lower TGP and disproportionately lower loss exposure and volatility in the Hippo Home Insurance Program segment in 2024.

We've made great progress on operating expense control during the quarter. Excluding loss and loss adjustment expense, consolidated expenses were $72 million in the quarter, down from $134 million a year ago. Reduced sales and marketing expenses were the major driver, down $19 million from $29 million a year ago, while tax and development costs were $12 million versus $15 million a year ago. We also recently announced our decision to take additional expense savings actions, including a staff reduction of up to 120 employees. We expect these actions to drive additional annualized savings between $50 million and $70 million, partially beginning in Q4 of this year.

We ended the quarter in a strong financial position with cash and investments of $558 million, down from $565 million on June 30, 2023, as our Q3 adjusted EBITDA loss was partially offset by favorable changes in working capital.

In our Services segment, our Q3 adjusted operating loss was $10 million, down from $16 million a year ago. Year-over-year growth remained strong with TGP up 32% to $122 million and revenue up 22% to $12 million. The [service] agency continues to have tremendous success in the builder channel, with volumes reaching another all-time high in the quarter despite the pressures on the broader housing market.

Growth was driven by higher numbers of policies placed and higher premium per policy. Our third-party premium retention rate was 97% in the quarter.

At First Connect, our digital marketplace for independent agents and carriers, we saw a year-over-year increase of more than 180% in non-Hippo new total generated premium during the quarter despite challenging market conditions. By the end of this year, non-Hippo

TGP will be triple the level it was at the end of 2021. We've been consistently adding to our portfolio of carriers to attract agency partners. And in Q3, we hit a new record with over 20,000 agency appointments granted, representing 3x growth from a year ago.

As we look forward to 2024, we expect continued revenue growth and expense savings to turn our Services segment closer to positive operating income in the second half of 2024 earlier than previously projected.

In our Insurance as a Service segment, adjusted operating income was steady at $4 million, up from $2 million in the year ago quarter. Year-over-year TGP growth remains very strong at 72%, and we see many opportunities for further growth in the market. Revenue grew 94% year-over-year. We continue to expand our Spinnaker platform while maintaining our high standards for due diligence, underwriting and expense discipline.

The Hippo Home Insurance Program's adjusted operating loss of $32 million was its best quarter since our IPO. Underwriting and pricing actions taken in 2022 and 2023, continued expense control and improved underwriting performance and improved reinsurance treaty terms all contributed. Total generated premium in this segment was $95 million, up 1% over the prior year quarter as underwriting and pricing actions we took in 2022 and early 2023 resulted in higher rates that offset an intentional reduction in underlying policy count and exposure. We expect our recent actions to result in additional TGP declines in 2024. Our aim is to materially reduce our exposure to the hail and storm risk, which have caused a disproportionate percentage of our losses to date.

The Hippo Home insurance Program's revenue in the quarter of $29 million was up 77% over the prior year, largely reflecting higher premium retention in our 2023 reinsurance treaty versus our 2022 treaty. In addition, we benefited from organic growth in TGP and higher investment income.

HHIP's Q3 gross loss ratio was 75%. Excluding PCS caps and prior year development, the core gross loss ratio was 69% versus 82% in the prior year quarter. The losses from the large hail storms during the second quarter have been developing favorably. And as a result, we've chosen to release $11.8 million of net reserves associated with these storms. While we're pleased with the progress, we expect the more aggressive actions we've taken in recent months to drive even better results in the future with significantly lower volatility.

HHIP's adjusted operating expenses, excluding loss and loss adjustment expense, were $26 million in the quarter, down from $38 million a year ago. As a percentage of TGP, these operating expenses were 27% versus 40% in the year ago quarter. While we are pleased with this improvement, we expect even more improvement going forward as a significant portion of our recent expense reduction actions were focused on this segment.

I'd now like to update our guidance for 2023. For the full year, we now expect an adjusted EBITDA loss of between $207 million and $212 million compared with our previous range of between $208 million and $218 million. We now expect 2023 revenue of between $190 million and $195 million, up from our previous estimate of $178 million. And our 2023 TGP estimate remains $1.1 billion. We expect to provide more detailed 2024 guidance when we report our results for the fourth quarter of this year.
Thank you for joining us today. And now I'd like to turn the call back over to the operator for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

First, I also want to extend my condolences to Hippo employees, family and friends in Israel and to the people Israel in the face of the horrors of the last few weeks. And with regards to maybe the more mundane. I want to start maybe with the decision to temporarily pause underwriting new homeowners business in August. Rick, I think you called it a bold step. I think one could also call it maybe drastic. And certainly more drastic than what we've seen from, let's say, other insurers in the past when they decided to retrench or pull out of certain regions or lines. Can you maybe walk through the decision to take such a bold action as opposed to maybe less pronounced measures? And to what extent do you see that as potentially impacting your relationships with partners and agents going forward?

Richard Lyn McCathron
President, CEO & Director

Yes. Thanks, Yaron, for the question, and thank you for the condolences to all those impacted. I think, first of all, the reason we think it's a bold decision is our objective is to accelerate the path of profitability as quickly as possible and take the measures we need to do to guarantee the achievement of doing so. So we wanted to make sure we had rate adequacy. We had the appropriate terms and conditions, the appropriate deductibles, understanding the costs associated with our distribution partners and get all of that right before we started either increasing problematic situations and then reopening. So what we have done is we have already begun reopening the builder channel. So we've opened it up in most of the states that we do business in. We've also simultaneously increased rates, increased deductibles, changed terms of conditions, changed the way that we have -- are paying our distribution partners. And as those take effect in various states, we are then opening up those states provided that they do not create increased volatility to the portfolio. In fact, every action that we're doing is to have disproportionate impact on the PMLs versus the premium. And we're excited by the progress that we've made early on as we have these conversations with our distribution partners, they recognize this is not a Hippo only problem that the industry is suffering and that we all have to work together to make sure that we have a profitable environment and a healthy market going forward. Certainly, distribution partners wish that there was some consistency and some stability, but consistency and stability can be measured over time, and that is what we have provided them thus far.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And do you have any sense how long it will take until you're fully back in business?

Richard Lyn McCathron
President, CEO & Director

Yes, I do think that we will come back gradually, and we will come back gradually as these different actions take effect. But I do think you're going to see us opening more and more by second half of 2024. But again, I just want to be very clear, we will only open in areas that we have the rate adequacy, the right deductibles and reduced volatility. We have lots of growth coming from other aspects of our business. One thing to keep in mind, as I mentioned in my opening remarks, that 65% of Hippo's TGP is coming from the non-HHIP program. And those companies or those divisions are doing very, very well, and we expect to continue to lean on them while we're improving the volatility in the terms and conditions of the HHIP program.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And actually, the latter half of your response is a good segue to my next question. With regards to Spinnaker, do you view it as a core business? And I ask that because on the one hand, obviously, it is part of the profitable segment of the 3 segments that the company has. And as you point out, it's a very significant contributor to TGP. On the other hand, we have seen some industry headlines talking about maybe we're looking to sell the business and we've seen certainly other fronting assets for sale. So would love to hear your thoughts about Spinnaker in particular.

Richard Lyn McCathron

President, CEO & Director

Yes, it's a really good question. And you bring up the 2 interesting aspects of how I'm going to answer that question. First of all, let me begin by saying we are thrilled with the asset that we have with Spinnaker. It is doing an exceptional job to the company. So when you ask, is it core to our mission of partnering with customers, helping them reduce losses in their home? I would say no, you can do that as an MGA and you don't have to have a carrier to necessarily do that. That said, when you do have the carrier and you have control of the balance sheet and control of the capacity, it significantly derisks the reliance on any third party. This was a risk that we had several years ago before we bought Spinnaker and we think that hypothesis stands true. Having Spinnaker derisks the business and it allows us to continue to help our customers reduce risk. And of course, as you correctly pointed out, it does contribute positively both to TGP and to EBITDA. So as I said, we think the business is doing very well. We like the business. We won't comment on rumors within the marketplace, but -- but I think I've been very clear on how we view that business.

Operator

Our next question comes from Tommy McJoynt with KBW.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

The first one is just around the kind of decision you guys had, an announcement about kind of pulling forward the expectations for the timing of when you'll turn EBITDA profitable. Can you just walk through the components of sort of what brings that time line forward? How much of that is the staff reductions on the expense side, how much is better underwriting within the HHIP side and any other components.

Stewart Andrew Ellis
CFO & Treasurer

Hi, Tommy, this is Stewart. Thanks for the questions. I think that you've hit on a number of the most significant drivers. And this is a -- with the exception of the expense reduction, which I'll talk about in a second, a lot of the answers are going to be a recurring theme from some of the conversations we've had in the prior quarter. So the loss ratio improvement, which is probably the biggest driver of the Hippo Home Insurance Program's segment's profitability. I think we're very pleased with the progress that we've made there, continuing to see very large like meaningful year-over-year improvement in our core non-PCS loss ratio.

We're also, as Rick mentioned, taking aggressive action to reduce the volatility from the kind of PCS events that impacted us last quarter and that have been accounting really for the bulk of our losses in the history of the company, reducing exposure to wind and hail. By reducing the exposure in these areas, it allows us to rely less on expensive reinsurance because we have less volatility in the portfolio. And as we've talked about in previous quarters, the many rate filings and other rate actions that we've taken in 2022 and earlier this year in 2023 are going to start to show up in a more substantial way over the course of the rest of this year and into 2024. So the loss ratio improvement while also reducing the volatility allows us to deliver a higher net underwriting profit going forward. So we think that we've made great progress on that.

And as we continue to get more data, I expect our confidence will increase further. Beyond that, the expense savings are significant. So right now, we're estimating that we're going to save on an annualized basis, somewhere between $50 million and $75 million relative to the pre-action cost structure in the business. A lot of that is employee reductions, which is a combination of slightly lower volumes in HHIP in terms of business that we're writing on our own program as opposed to third-party business. But we are also benefiting from the investments that we've made in the past. It is now possible for our business teams to be able to -- sorry, it's $50 million to $70 million. It's now possible for our business teams to make many of the rate filings and changes because of tools that our engineering teams have built.

We are very pleased with the progress that we've made in building our team in Poland. We think of them as a core part of our development efforts going forward. They're doing a great job. And as we shift away from the need to build more features and other things in the short term into the platform, we expect to save significant dollars there. I think we're also doing the other things that you might expect, thinking about vendor costs and facilities expense and the cost of information and data that we're using for underwriting. So it's a broad-based program of actions that are designed to help speed the path to profitability, and we feel very excited and confident that we are making that turn here. And so --

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

My second question is somewhat following this upon the previous question. Thinking about the Hippo Home Insurance Program and the expectations for that to decline next year, obviously, as the pause takes time for it to be reopened. Can you envision a scenario where that business shrinks for an extended period and just becomes generally a smaller piece of the franchise value? At the same time, while growth remains ongoing in the Insurance as a Service and on the Services side. Is that a scenario that you can envision?

Stewart Andrew Ellis
CFO & Treasurer

I think I would frame it slightly differently, Tommy. I think what I would say is, as Rick mentioned earlier, we are open to writing new business where we think we can do so without losing money or without high levels of volatility. So we need to have rate adequacy and it needs to be something that is not adding to the overall volatility of the portfolio. That's going to get easier over time as more of the rate filings that we have put in place are rolled out. And as more of the terms and condition changes, raising deductibles and that sort of thing, work their way into the system. Again, I don't think we're alone making these changes. So I think what we're more likely to see is a temporary slowdown and kind of shrinking in the Hippo Home Insurance Program while we reassess our underwriting appetite and our risk appetite. While the other pieces of our business continue to grow quickly, our objective of helping our customers protect their homes has not changed. And we think that we can assist them in making themselves more attractive to either our carrier or third-party carriers through the home care services that we're offering and by being a differentiated agency in the market.

Operator

Our next question comes from Alex Scott with Goldman Sachs.

Alex Scott

First question I have is, if you can help us think through what this will do to the trajectory of overall revenue. I'm just thinking through in the Services segment and agency less risk but also less revenue per dollar of premiums in that model. Is that going to cause overall revenue growth to significantly slow? And could you help us think through what that looks like?

Stewart Andrew Ellis
CFO & Treasurer

Yes. Happy to start. And then if you have follow-up questions, I'm happy to try to clarify. I don't think it's true that you'll see less revenue per dollar of premium in the Hippo Home Insurance Program segment. I think, in fact, the opposite is true, and you're seeing that show up in the numbers. I think we've talked in past quarters about how we've retained some premium, and we've ceded off some premium. There's a -- and we recognize commission income for the premium that we ceded off when we use quota share reinsurance. In 2023, we're using less quota share reinsurance. And while we are retaining more premium, we're not necessarily retaining dramatically more risk. I think earlier in the year, we showed a slide where we talked about the closing of the gap between risk retention and premium retention. And our 2022 reinsurance treaty, we were retaining a disproportionate percentage of the risk because of the way our reinsurance treaty was structured. And that we're moving away from that kind of reinsurance. And so what you'll see is per dollar of premium per dollar of gross premium, you should actually see higher revenue per dollar of premium rather than lower revenue because we'll have higher earned premium. And you can see that in this quarter in the Hippo Home Insurance Program with revenue up 77% and total generating premium up only 1%. So I think we will see continued growth in Services segment. We'll see continued growth in Insurance as a Service. And we will not -- I don't think we're going to see an erosion of economics in the Hippo Home Insurance Program. I think we're going to see, in fact, the opposite, and we're going to -- it's going to start to -- all of the work we've been doing over the past few years is going to start to show itself in the reported financials, which is something that we're quite excited about.

Alex Scott

But I guess one piece of my question was also just when you're writing -- when you're sending business to the Services segment as just an agency relationship rather than writing it through Hippo Home Insurance, I assume it would be the case that you're going to have a lot lesser revenue for those premium dollars than you would of writing it through Hippo Home Insurance because you're just the broker, right? You're not taking risk. So is that -- do we need to think about that as a revenue headwind, just that mix shift? And is that going to be more significant, I guess, is what I was trying to get at.

Stewart Andrew Ellis
CFO & Treasurer

Yes, I don't actually think so. I mean, I think the benefit of revenue in the Services segment is that there is no loss and loss adjustment expense associated with it. It's a much more profitable on a variable basis business than the risk-taking piece of our business. And so I believe that the Services revenue is growing faster than the home insurance and the Hippo Home Insurance premium. So I don't see it as a headwind. I mean we think about those as distinct aspects of our business. We think about the Hippo Home Insurance Program as the sort of risk-taking piece of what we do. And we think about the Services and the Insurance as a Service as the lower risk exposed pieces. And in fact, Services not having any risk exposure. So I think on balance, it will make the business higher variable contribution margin and also more predictable over time as we see a mix shift towards Services and Insurance as a Service, both of which are continuing to grow rapidly while we work to understand and kind of refactor our risk appetite within the homeowners business.

Richard Lyn McCathron
President, CEO & Director

Yes, Alex, and it's Rick. And I do want to double down what Stewart said in answering Tommy's question and sort of my comments on Yaron's question. So we do not look at our pause as a long-term pause. We look at as a way to ensure the fact that any business that we write on HHIP is profitable business. Therefore, the contribution by premium dollars in our agency when you're sort of doubling the fact that you get the underwriting profit and the agency premium, we want to make sure that, that outweighs any volatility that we might have that would deteriorate those longer-term economics. So I think your question, if we were looking to intentionally shrink or to have a prolonged period of a slowdown that might be correct, but this is merely a resetting in establishing the right portfolio we want to reduce volatility yet rights premium business, both direct and through other partners.

Alex Scott

If I could sneak one more in. Are you seeing any impact to sort of the home care aspect of the business? I know you guys were sort of rolling out an app and trying to get users going there on some of those products that are sort of separate from the insurance business altogether. Is this going to sort of pause that? I mean how do I think to the impact of that business?

Richard Lyn McCathron
President, CEO & Director

Yes, Alex. That's a really good question. I think interestingly enough, if anything, our ability to offer home care services over customers, whether they are HHIP customers or agency customers increases the universe of potential revenue from that particular customer base. And so now our app is available to any homeowner throughout the United States, whether they're a Hippo homeowner customer or not. And over time, the ability to monetize insurance in that home care sort of situation actually increases and it increases as an agency disproportionately to how much it would increase in the HHIP segment. So it's actually the opposite, frankly, we're getting more traction when we bundle it as a value to an agency customer than if we only created an opportunity for HHIP-only customers.

Alex Scott

Any KPIs in that business that we should think about? I'm just trying to gauge, like when you talk about the success of rolling some of that out and what not, how do we measure that?

Richard Lyn McCathron
President, CEO & Director

Yes. We -- I think in our 2024 guidance, we'll do a better job of explaining to you what we expect to see on there. We have said previously that we have -- gosh, we're close to 100,000 app installed users and our monthly active user number has been increasing, but let us get back with you when we're prepared to share more guidance around that in Q4.

Operator

Next question comes from Karol Chmiel with Citizens JMP.

Karol Krzysztof Chmiel
JMP Securities LLC, Research Division

I was just trying to get more color on the growth prospects, particularly the insurance services. I mean, is there anything new that you can think of in terms of growing that business? Is there some kind of leverage you can use to grow more?

Richard Lyn McCathron
President, CEO & Director

Yes. It's a really good question. I think there are no shortage of opportunities in the fronting and Insurance as a Service segment. And we have a very full funnel of opportunities with MGAs and other partners in that area. One thing that positively benefits us is there are others that are in this space that did have fairly significant exposure to the [West 2] situation, and we had no exposure to the West 2 situation. So we are actually picking up programs that are needing capacity given the write-offs that some others have had to face in that particular area. So from a growth perspective there, there is no shortage of opportunities for that to continue to grow.

Stewart Andrew Ellis
CFO & Treasurer

I think we're also seeing growth. We're also seeing growth, fairly substantial growth from some of our existing programs as well. So we really have multiple levers, right? We have existing programs that are growing year-over-year. And as Rick said, there are a number of programs that are looking for a partner on the fronting business, and we're excited to be able to support them.

Karol Krzysztof Chmiel
JMP Securities LLC, Research Division

And then just one last question. I'm just curious because it kind of came up recently. In terms of the terms and conditions on the Hippo Home Insurance Program, is there -- are you thinking of any creative changes to the terms and conditions, for example, actual cost roof replacement instead of the replacement cost of the roof replacement?

Richard Lyn McCathron
President, CEO & Director

Yes. And in fact, we've implemented those already. This is part of this project to reduce volatility generally. So we're doing all the things one would expect on increasing deductibles changing the terms and conditions, replacement costs or actual cash value versus replacement costs. We're also looking at other partnerships or other avenues that might make sense to stabilize the [CES] exposures, whether it's a partnership with roofers, with hardened roof materials, whether it's partnerships with parametric providers because when you increase the deductibles, that puts a significant burden on the customer. Is there a way for them to buy that deductible down through a different risk bucket. So we're looking a lot of structural things that we can do because, frankly, this is an industry problem. The CES exposure is increasing. It's not shrinking. Much of the burden has been placed on the primary carriers over the last year or 2, and we think that there needs to be a settling of that disproportionate burden on the primary carriers, mostly through the form of increased deductibles and things as you mentioned, cosmetic exclusions and actual cash value. So we're looking at a lot of different things as all part of this renewed effort to ensure reduction of volatility in the book.

Operator

[Operator Instructions] Our next question is a follow-up from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Two quick ones, I hope. One, the underlying loss ratio in HHIP, so excluding [CAS and PYD] seem to tick up a bit this quarter relative to the last 2 quarters. Any one-offs there? And anything you could call out?

Stewart Andrew Ellis
CFO & Treasurer

Hi, Yaron, it's Stewart. I think there is some seasonality of kind of interior water claims. I think we also had a very small number of non-wildfire total loss fires in the quarter. So nothing that would make a trend.

But I would point back to the significant improvement year-over-year. Like there is some seasonality to this. And while we do look quarter-over-quarter is important, but year-over-year, it's really where we spend most of our time.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And then can you offer the catastrophe and the PYD impacts to the net loss ratio?

Stewart Andrew Ellis
CFO & Treasurer

Yes, I think we published that in the shareholder letter. I thought I understood your question.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Apologize, I missed that. Okay. I'll go back and look at it. That's fine. And so maybe one last one then. With the expense reduction program, are there particular OpEx lines that you think would be more significantly impacted?

Stewart Andrew Ellis
CFO & Treasurer

Yes. I think it's more across the board. The -- because the employees exist in all of the lines, and we do have vendor savings that we're expecting in all the lines as well. So it's not going to be driven by any one place in the P&L, but an acceleration of the operating leverage trends that we're already seeing in the business. And our operating expenses have declined even before these actions very, very substantially as a percentage of premium and as a percentage of revenue, this is just going to be an acceleration of that trend.

Richard Lyn McCathron
President, CEO & Director

Yes. Yaron, One thing I do want to add, when we talk about payroll costs and payroll reductions, 2 years ago, we purchased SwingDev, which is a development house in Poland. We've actively been growing that operation and have increased the growth of that operation as of late. And so although payroll is coming down, it does not naturally -- you should not naturally assume that there's fewer people over the long term. It's a lower cost environment as well. The quality of work we get, we've been incredibly impressed over the last couple of years. And so we believe that despite the fairly large headline number of payroll reduction, we still think that we can achieve the goals that we have for the company while getting profitable much quicker.

Stewart Andrew Ellis
CFO & Treasurer

Yaron, I think I may have misspoke earlier. We -- I think we published the impact of prior year reserve releases and the PCS breakdown on a gross basis. I don't know that we put it in the letter on a net basis, but let me get back to you on that.

Operator

Thank you all for your questions. We have no questions waiting at this time. So I will pass the conference back to the management team for any further remarks.

Richard Lyn McCathron
President, CEO & Director

Great. Well, thank you, everyone. Thank you, Operator. Thank you for joining this evening. We're excited with the progress that we've been making in a very short period of time, and we're excited to be talking to you next quarter. Thank you very much.

Operator
That will conclude today's conference call. Thank you all for your participation. You may now disconnect your lines.