Root, Inc. (NasdaqGS:ROOT)
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PRELIMINARY VERSION - The edited version will be available shortly.

Executives
Alexander Edward Timm - Co-Founder, CEO & Director
Christine Patrick - Vice President of Investor Relations
Daniel Harris Rosenthal - Chief Revenue & Operating Officer & Director
Frank Phillip Palmer - Chief Insurance Officer
Matt Bonakdarpour - Chief Technology Officer

Analysts
Andrew Scott Kligerman - MD & Senior Life Insurance Analyst
Ismael Dabo - Research Associate
Joshua Michael Siegler - Research Analyst
Mark Douglas Hughes - Managing Director
Matthew John Carletti - MD & Equity Research Analyst
Tracy Dolin-Benguigui - Director & Senior Equity Research Analyst
Unknown Analyst -

Presentation

Operator
Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Root, Inc. First Quarter 2022 Earnings Conference Call. [Operator Instructions] At this time, I would like to turn the conference over to Ms. Christine Patrick, you may begin.

Christine Patrick
Good morning, and thank you for joining us today. Root is hosting this call to discuss its first quarter 2022 earnings results. Participating on today's call are Alex Timm, Co-Founder and CEO; and Dan Rosenthal, Chief Operating Officer and Chief Revenue Officer. During the question-and-answer portion of the call, our presenters will be joined by Matt Bonakdarpour, Chief Technology Officer; and Frank Palmer, Chief Insurance Officer. Last evening, Root issued a shareholder letter announcing its financial results. While this call will reflect items within that document, for more complete information about our financial performance, we also encourage you to read our 2021 Form 10-K. .

Before we begin, I want to remind you that matters discussed on today's call will include forward-looking statements related to our operating performance, financial goals and business outlook, which are based on management's current beliefs and assumptions. Please note that these forward-looking statements reflect our opinions as of the date of this call, and we undertake no obligation to revise this information as a result of new developments that may occur.

Forward-looking statements are subject to various risks, uncertainties and other factors that could cause our actual results to differ materially from those expected and described today. In addition, we are subject to a number of risks that may significantly impact our business and financial results. For a more detailed description of our risk factors, once again, please review our Form 10-K where you will see a discussion of factors that could cause the company's actual results to differ materially from these statements as well as our shareholder letter released last evening.

A replay of this conference call will be available on our website under the Investor Relations section. I would like to also remind you that during the call, we are discussing some non-GAAP measures in talking about Root's performance. You can find the reconciliation of those historic measures to the nearest comparable GAAP measures in our shareholder letter released last evening and our filings with the SEC, each of which will be posted on our website at ir.joinroot.com.

I will now turn the call over to Alex Timm, Root's Founder and CEO.

Alexander Edward Timm
Thank you, Christine. In the first quarter, we took aggressive actions to position the company to continue to weather one of the most difficult environments we've seen as a young company. Our focus on capital preservation led to dramatically reducing fixed expenses, rapidly changing rates, tamping down growth and marketing spend and tightening underwriting on the least profitable segments of our business.

At the same time, we continue to make progress on what makes us special, building world-class products through the very best technology for our customers. At the end of the first quarter, less than 6 months after announcing our exclusive partnership, V1 of the embedded product was available to roughly 65% of Carvana customers. In addition, we made further improvements to our product flow, together resulting in 13% of new premium volume coming from this channel. We expect V2 of our embedded product to launch in the second quarter. This version will allow customers to quote and buying Carvana insurance built with Root without leaving Carvana's platform.

We've reduced the number of screens before checkout from the initial 24 down to 6 with this latest version now down to 3. This has delivered a more integrated and elevated customer experience. I invite you to experience V2's capabilities through a demonstration of the product, a link to which can be found in this quarter's shareholder letter.

We are laying the foundation for a highly defensible growth channel with our fully embedded product. In addition, we are building a complementary brokerage product to offer the embedded experience to all of Carvana customers. We believe we are at the beginning of a growing trend to transform the insurance purchasing experience to one that occurs at a time that works best for the customer.

Our technology allows Root to meet customers in their time of need, with a seamless, frictionless and simple experience. Powering our embedded offering is our industry-leading developer experience. We have a clear vision to make our embedded offering something that any developer can implement in less than an hour.

During the quarter, we made further progress on strengthening our underwriting, which has resulted in a 12-point sequential improvement in loss ratio. Dan will give more color on the underwriting actions. We believe these actions will materially improve our results while building defensible growth. With a focus on building industry-leading customer products through better technology, we are able to move faster than our competition.

Before I turn it over to Dan, I'm very excited to welcome Rob Bateman to our executive team as Chief Financial Officer. Rob's significant experience in the insurance industry and deep financial expertise will be pivotal in driving the company's success. He looks forward to presenting in future quarters. I'm thankful for the tenacity and hard work that our employees demonstrate every day. I appreciate the trust of our customers and investors. And with that, I'll turn the call over to Dan.

Daniel Harris Rosenthal
Thanks, Alex, and good morning, everyone. Our results for the first quarter of 2022 reflected significant strides forward in strengthening our underwriting performance and developing our embedded offering. You will find our full GAAP financial results contained in the shareholder letter we published yesterday evening, but we wanted to give a few of the key highlights.

On the top line, gross written premium declined 8% year-over-year to $187 million. Our gross earned premium increased 9% year-over-year to $175 million. The top line decline reflects a significantly lower level of marketing spend compared with the first quarter of 2021, partially offset by increased retention and more new business than originally anticipated. We believe the new business volume is being driven by seasonal trends in shopping behavior.

Shifting to profitability. Gross accident period loss ratio was 81% for the first quarter, a 12-point sequential improvement versus Q4 2021 and a 27-point improvement from first quarter of 2019, the most recent year, not affected by the pandemic. By leveraging our modern infrastructure, we have responded quickly getting rate and underwriting changes into market and are experiencing improvement more quickly than most of our peers.

Our technology advantage can be seen in our rate filing process. First, we have built a self-service environment with roughly 85% of our rating change analysis workflows fully automated. Through this, we can rapidly make improvements to our pricing model, better predicting losses. Second, we are able to seamlessly implement the new models into our rating plans. This allows us to provide regulators with real-time data to support current rate needs.

And lastly, once approved, we are able to ship new rate plans immediately, getting needed rate into market quickly. The operating changes we have made are improving our financial performance. Operating loss was $71 million, a 25% improvement when compared with the first quarter of 2021. We adjusted EBITDA improved 43%. This is a new KPI we have introduced this quarter to give a clearer view of the underlying performance of our business, excluding certain noncash and other items.

The primary driver of this reduction was our concerted effort to lower expenses. We continue to find efficiencies within the company to reduce capital consumption while investing in opportunities that present high return potential. We have moved past our peak expected cash burn year in 2021. During the first quarter, operational changes have resulted in a 23% sequential reduction in non loss and LAE expenses or 42% compared with the first quarter of 2021.

We ended the first quarter with $736 million of unencumbered capital compared with roughly $450 million at the end of 2021. The increase was primarily driven by closing the $300 million BlackRock term loan facility during the quarter. Turning to our outlook. We continue to expect gross written premium to reflect significant year-over-year declines in the first half of 2022 as we take underwriting and pricing actions, leading to meaningful improvement in our operating losses.

With a further reduction in marketing costs and fixed expenses, we expect approximately 25%

improvement in operating losses in the first half of 2022 compared with the first half of 2021, excluding restructuring charges of $9 million to $12 million. $7.8 million of restructuring charges were recognized in the first quarter. I would like to echo Alex's statement that we are using our differentiated model to thoughtfully navigate through a challenging environment.

The actions that we have taken demonstrate our thoughtfulness around deploying capital and position us to become stronger than we have been at any other time in the company's history, and we are not finished. Our near-term goals are very clear, continued to strengthen our technology advantage and underwriting foundation while building out our differentiated product. We're excited about the opportunities before us and appreciate your continued support. With that, Alex, Frank, Matt and I look forward to your questions.

Question and Answer

Operator
[Operator Instructions] Our first question or comment comes from the line of Josh Siegler from Cantor Fitzgerald.

Joshua Michael Siegler
Obviously, your underwriting technology advantage played a big role this quarter. In what areas do you plan to invest to make sure you retain this advantage moving forward.

Alexander Edward Timm
Thanks for that question. Really, we continue to invest really throughout the entire pricing and technology and actuarial stack. In this quarter, we materially improved the amount of automation that we have currently for actuaries and actually took the percent of our actuarial workflows that were 100% automated from about 50% to 85%, and we're continuing to invest there. So that really, as we continue to progress, the machine can do more and more of the work for us and allow us to continue to very rapidly study trends in the market, get those inside of our data science models and then actually reflect those in rate plans. And I think that's exactly what you saw this quarter, and that's what you're going to continue to see from us.

Joshua Michael Siegler
Excellent. That's helpful. And then I'd also appreciate some additional color on the brokerage platform idea. What levels of reinvestments are required for this expansion? And do you expect it to be accretive in 2022?

Alexander Edward Timm
So the brokerage program is something that allows us really to broaden the Root customer experience to even more customers. And so areas where it might not -- we aren't licensed or we aren't selling our own insurance product yet or areas where the risk just doesn't meet our underwriting appetite, it is not an aggregator experience. We are really looking to highly personalize and select the best possible carrier for each customer that comes through our platform.

And we've been working very hard on that, and I appreciate the work of the team, [indiscernible] and Chris Brown have both really done an excellent job there, and we appreciate that. And we expect that actually will launch later in Q2. In terms of the results and our expectation for this year, I'll pass it to Dan, and he can talk a bit about that.

Daniel Harris Rosenthal
Yes, and thanks for that. I think Alex just talked about, we expect to [ship] the brokerage product in Q2 and we expect we'll come back and talk to you on the Q2 call as well as our Investor Day, which we're looking forward to in September about the plans for the go forward.

Operator
Our next question or comment comes from the line of Mike Phillips from Morgan Stanley.

Ismael Dabo
You actually have Ismael Dabo on the line for Mike Phillips. I have just 1 quick question. So can you talk about why the Carvana channel is defensible. Why you think it's defensible? Can other, I don't know, insurers do this with other car sellers or other OEMs

Alexander Edward Timm
This is something -- and there's been other insurance companies now for decades. Actually that have tried to really crack the embedded experience. And we believe that in order to truly build a customer experience that is seamless for the customer that you really do need to be built on a modern technology stack because it's very difficult to actually completely embedded insurance, purchasing experience and offer a seamless quote and bind to that consumer with very few questions being asked.

And really having been built on technology from the ground up, we're able to do that. And so we're able to really partner with Carvana who also is obviously a digital company, and we think that we have very strong alignment in terms of our customer, our technology and our cultures, we were able to come together and really actually deliver a tech experience that is very different.

I'm going to pass it over to Matt Bonakdarpour, our CTO, who can talk a bit about why our technology, we believe, is very differentiated.

Matt Bonakdarpour
Yes. Thanks, Alex. Our approach to the embedded channel aligns with our approach to the direct channel to build world-class customers, world-class products through the very best technology for our customers. And in the case of the embedded channel, our customers are not only potential policyholders but also our embedded partners and specifically the developers at our partners.

And so what we aim to do is create an easy, delightful experience with the developers when they're introducing the insurance purchase part of the customer funnel. And what allows us to do that when compared to, say, OEMs is that we've been doing this for years. We've invested heavily in the back-end systems that allow for data collection, quote customization, binding and when necessary, proof of insurance, and we're standing on the shoulders of giants in order to ensure that developer experience is easy and seamless and truly differentiated.

Ismael Dabo
Great. Just a quick follow-up question. So just curious on your reinsurance contract, I think that you're ceded as a percentage of your direct earned premium has been hovering around 50% -- mid-50% range since you has to restructure your reinsurance contract with one of your partners. I'm just wondering how

we should think about that going forward. Also how since you have changed your strategy and you are trying to balance your profitability with their growth, how have your reinsurance partners reacted to that?

Daniel Harris Rosenthal
Yes. Thanks, Ish. This is Dan, and I appreciate the question. Nothing has changed with regard to our reinsurance strategy and plans. We are, in fact, in the process of negotiating our next treaty right now and continuing to see strong support from a capacity standpoint as well as from a quality of the partner standpoint. The session level will be consistent with what we've talked about previously. And the other thing that I would add is we're seeing that the reinsurers really like the business that's coming through the funnel in terms of the Carvana business and that's contributing to their support of the company.

Operator
Our next question or comment comes from the line of Yaron Kinar from Jefferies.

Unknown Analyst
This is Andrew on for Yaron. Could you rank the 4 drivers that you called out for the sequential improvement in the underlying loss ratio from most lease impactful. I think you discussed rate increases earning in underwriting actions, 10-year mix and seasonality trends.

Frank Phillip Palmer
So this is Frank. I'd say that the rate actions was probably #1. But the other 3 are kind of all important. We do have some seasonality on that and some tenure mix, but most of it was the underwriting and rating changes.

Daniel Harris Rosenthal
Just real quickly, Andrew, I would just add, this is Dan. If your question was around earning in, you won't see as much of that in the quarter from the rate actions. You'll see that start to earn in future quarters. But I think Frank is right. In terms of the aggressive actions that we've taken throughout pricing and underwriting, obviously, it did spoke for itself the data around the [18] rate increases and earning in 19% -- starting to earn in 19 percentage points.

Unknown Analyst
And Alex, I think you mentioned -- or I think I heard that the Carvana version 2 will be available to all national customers, I suppose. I just want to make sure I heard that correctly. And what order of magnitude on attachment rate are you kind of anticipating over the course of '22?

Alexander Edward Timm
[indiscernible] 2, we are not anticipating to ship nationally to all Carvana customers at this point as we end up launching our brokerage offering and getting that into our market, that's when we believe that we'll actually have a closer or near 100% of the Carvana customers coming through our flow.

In terms of attach rates, we have seen really positive trends to now. We launched the product less than 6 months after the original partnership, which is really a testament to our technology differentiation in our ability to very quickly and seamlessly integrate with partners. And since then, we've actually developed some really incredible technology that is really materially increased our attach rates, and we plan to continue that work over time. And we certainly aren't slowing down.

If anything, we're speeding up. And all of those learnings and all of that technology that we're developing, we think is broader too. We think we can continue to replicate that across multiple partners. And as we continue to hone in on the developer experience, we see a world where we'll talk to a partner on a Monday and a buy a Friday, they will be live.

Operator
Our next question or comment comes from the line of Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
A follow-up on your brokerage platform. I'm curious, do other insurers want to get in on their Carvana products, and this is a way you can scale that up. And if I could also add, over time, could you envision your business model shifting where we could expect more fee income rather than premium?

Daniel Harris Rosenthal
Yes, Tracy, thanks for the question. From the moment that we announced the Carvana deal last August, we started getting calls from other insurance carriers. It was transformational in terms of how other carriers saw what Root is doing.

And it's a lot of what Alex and Matt talked about earlier in terms of the type of customer that we are approaching and how we're connecting with them from a customer experience and speed standpoint. So absolutely, not just Carvana, but the embedded product that we're offering. Other carriers are seeing that we are attracting a customer segment that they want, and we're doing so with an efficiency that they don't have.

And so that's something where it is contributing to very productive conversations. In terms of how it impacts our numbers and our business model and our fee income, we're exploring, frankly, a variety of different options. As you might expect, we're constantly looking at options to create the best use of capital, drive sustainable returns for our investors and still produce and maintain a differentiated customer experience. So there are multiple economic models that we're discussing with carriers, again, not just for Carvana, but for the broader embedded channel, and I expect we'll come back and talk to you about that in the quarters ahead.

Tracy Dolin-Benguigui
All right. Excellent. Also in your shareholder letter, you mentioned a 12-point sequential improvement in your gross accident period loss ratio to 81% from 93%. But I couldn't help but notice that last quarter, you reported a 91% gross accident period loss ratio. So it actually looks like you raised your loss pick. It looks like you did the same thing for your third quarter '21 loss pick. So my question is, what drove that? And if you have a track record of raising loss picks in subsequent periods, how confident are you with your current 81% pick?

Alexander Edward Timm
So first, I would say, we definitely do not have a track record of increasing [loss picks]. If you look back historically over our quarters we do see noise in reserves to some degree, particularly relative to the immediate preceding accident period as those claims are a little less developed than broader claims. And that's true this time as well. We saw this development really from the Q4 accident period. And you will see some minor swings, plus or minus, in those recent accident periods going forward.

For this quarter particularly, it was not IBNR or claims that we didn't expect coming through, it was really a result of material damage where we think that the severity was slightly elevated. And now we feel very confident in our reserve adequacy.

Tracy Dolin-Benguigui
Okay. In the past, you shared your frequency and severity. Is that something you could share with us your current view?

Frank Phillip Palmer
Yes. So compared to quarter 1 of 2021, severity and frequency severity are both up. As far as the magnitude, we're not going to share those at this point, but we do see miles driven has increased versus quarter 1 of last year. So that helps drive the frequency. And then, of course, the supply chain issues and material damage costs are well known.

Operator
Our next question or comment comes from the line of Matt Carletti from JMP.

Matthew John Carletti
I want to ask a couple of questions on the Carvana relationship. Are you -- can you give us some color just broad strokes in terms of the business you're capturing there? Kind of how much is switching from another carrier versus coming into -- not having insurance or maybe not having a car and buying insurance for the first time or buying a new policy?

Daniel Harris Rosenthal
Matt, it's Dan. Thanks for the question. We are seeing real success with the Carvana partnership in multiple different ways. The product focus is fantastic. We've uploaded the demo for those who want to see it live. We think it's highly differentiated, and you can take a look at that. And customers are responding to that. And to your point, it's a better customer from a segment standpoint, from a retention standpoint and from a switching from another carrier standpoint. We won't get into specific numbers as of yet, but a significant majority of the customers that we are transacting with via the Carvana channel are coming from another carrier.

We're really excited about the chance to meet that customer within the car buying experience. It's a natural point to be thinking about insurance and with a totally differentiated customer experience and offering. So we're excited about where the partnership is today. We're excited, as we've talked about with where the differentiated technology has application to other partners, and we'll come back in the quarters ahead and talk more about it as we get V2 in market.

Matthew John Carletti
And you mentioned it there and in the letter kind of about how these customers seem to be higher retaining. Should I interpret that as you're not building a nonstandard book of business? Or should I interpret that as like the retention is even better than kind of what you'd normally see in a standard book of business, kind of what's kind of the reference point?

Frank Phillip Palmer
Sure. I'd say that the route Direct is kind of representative of car drivers in the U.S. and the Carvana customers in contrast tend to be more preferred. Their cars are newer. Their cars are more expensive.

They tend to be more full coverage, all of which are correlated with preferred characteristics. So the data is still thin. So it's hard to tease out how much of that improved retention is just because they're more preferred versus the Carvana relationship. We believe that we're seeing a bump from both of those aspects, but it's hard to tease out how much from each one.

Matthew John Carletti
Okay. Great. And then 1 last question, if I could. You made mention in the letter of embarking on UBI 5.0 I was hoping you could just give us a little color in terms of what the major changes there are that we might expect? And also if you could touch on just kind of through the traditional kind of direct channel, the onboarding test drive period. Kind of what -- where does that stand now? Kind of how is 4.0 impacted that? And do you expect that to be shortened further by 5.0.

Matt Bonakdarpour
Yes. Thanks for the question. This is Matt Bonakdarpour. We are deep in the R&D for UBI 5.0, getting to the end of the R&D process and pivoting to our implementation process. Thankfully, based on all the investment we put into this infrastructure, we were able to iterate very quickly, test out new telematic features in the model and new modeling techniques. And we are seeing conclusive improvements to the 4.0 predictive power. But not only that, to your later question, we are going to be focused on driving down the test drive period so that those test drive can get quotes earlier, which, of course, will help with our conversion rates and the customer experience.

Operator
Our next question or comment comes from the line of Weston Bloomer from UBS.

Unknown Analyst
First question is on the rates you've taken cumulatively and across your book in the quarter. I guess the question is how much more of your -- or how much more of your book do you need to become rate adequate? Or just trying to engage that in the context of what level of rate increases we could see in the 2Q and year-to-date.

Frank Phillip Palmer
Sure. That's a great question. First, let me start by asking, "Hey, what's trend going to be the rest of the year?

So we think that we have taken a ton of rate, both third quarter last year, fourth quarter last year, we were in early as we saw the trends increase. We've taken a bunch of rate and underwriting actions in the first quarter of this year.

We do think that we are going to need some more rate the rest of this year. A lot of that's going to depend upon the trends as we see them play out. We're watching very closely the supply chain. We're watching the gas prices and how people driving does or doesn't change as the gas price rises. So we think that we won't need as much as we took in first quarter, but we still need to take some in the rest of this year.

Alexander Edward Timm
And I'll also add to that. We are very well positioned, as I believe Q1 has shown to leverage our technology so that as those trends and as some of this uncertainty does unfold, whether it's increased supply chain issues from a war in Europe or what have you, our technology has been built to respond

quickly. That's how we achieved what we achieved in Q1. And if we need more rate, it will -- the machine will work again.

Unknown Analyst
Great. On the trend Answer. Curious, I'm not sure if you're going to disclose this. But what are you assuming for used car prices as we move throughout the year? I know that's been the biggest driver in the increase in severity. So curious on kind of how you're thinking about that from a loss trend perspective.

Frank Phillip Palmer
Yes. So again, we monitor this on a monthly and weekly basis. I'm not going to disclose exactly what we think it might be for the rest of this year. We do think that it's going to remain elevated compared to last year. We might see some more increase, but certainly don't expect as much of an increase in 2022 as we did in 2021.

Unknown Analyst
Got it. You also mentioned that new business was higher than originally anticipated. Was any of that related to Carvana? I'm just taking that in context to the 13% of new premium volume from Carvana and shaping my expectations for the 2Q.

Frank Phillip Palmer
Yes. I think it's a good question, Weston. We obviously disclosed that the Carvana business was 13% of our new writings. Carvana as a channel was ahead of forecast for the first quarter. That's in part due to the reach that we had and the response from consumers. I would still view the Carvana channel as the test and iterate. We are putting in place a highly differentiated version 2 later this quarter. We're excited to get that into market. But I don't want to speculate on the number of new writings that will come from that channel as we go forward. There's a lot on the product road map we're tremendously excited about and optimistic about for the rest of the year.

Operator
[Operator Instructions] Our next question or comment comes from the line of Mark Hughes from Truist.

Mark Douglas Hughes
When we think about 2021, you talked about the good results at Carvana. What is the overall kind of mix of growth look like in terms of the different channels? Just roughly speaking, and maybe just priority, Carvana, paid search, maybe independent brokerage, Kind of how does that shape out when you think about the next few quarters?

Alexander Edward Timm
I wouldn't -- when we think about the next few quarters in the long term, really, we believe that the embedded platform is really just in its very early chapters. And we do anticipate because that platform works better for consumers and through our superior technology that we will be able to disproportionately grow that channel. That said, we obviously are still investing in our direct channel. We have pulled those back recently and some of those investments back recently as we've seen the loss trend, which we think is prudent capital management. And then we will -- we plan to reaccelerate those as we become more rate adequate.

Daniel Harris Rosenthal
Yes. I think that -- Mark, this is Dan. I would just add, I'd echo what Alex said earlier, the inflationary pressures have really allowed us to showcase the power of our technology. That has been our focus. That is reflected in the first quarter's pricing and underwriting, loss ratio-related results, and that's really 3 straight quarters that we have been highly focused on that. I think for us, we've been tuning the model from a growth perspective to then scale it. As you know, we proactively pulled way back on marketing spend when we started to see the shift in trend.

We feel good about where we're getting to from a pricing and underwriting perspective, getting that foundation solid. And along the way, tuning the model in direct marketing and in the embedded channel to then offer us the opportunity to scale it. We'll come back on the Q2 call and then at the Investor Day in September, and we'll talk more specifics about it.

Mark Douglas Hughes
When thinking about the Carvana relationship, you talked about, I think, 65% of sales nationally have exposed to Version 1. When you think about the number of Carvana customers who actually presented with the offer, get a good enthusiastic pitch on it, get exposed to the technology. How deep is the penetration for that kind of experience, the experience that you would want them to have when we think about all Carvana sales.

Frank Phillip Palmer
Yes, Mark, I think it's a good question, and I would encourage you to look at the demo and just go through the Carvana flow. What you will see is, we think Carvana is really transforming the car buying experience. And if you look at their results, they grew preferred customers year-over-year, and we really believe in what they're innovating in the car-buying experience. When you go through their funnel, you buy the car, you then have the opportunity to finance the car, you then have the opportunity to add service and warranty. And as you'll see in the demo, you then have the opportunity to buy insurance to go in that package. So that is -- it's really a very natural part of the car-buying experience. It's a seamless integration into the flow. And that's what we have in market today. We're really excited about V2 coming later this quarter that will step it up from there. And then obviously, we'll continue to iterate on the product as we go forward.

Mark Douglas Hughes
So that 65% reflects a good kind of penetration rate of customers that are presented with the offer.

Alexander Edward Timm
The 65% reflects the -- just the percent of the geographic area that we are currently live with the product and to answer that question, it does not reflect penetration of those folks.

Operator
Our next question or comment comes from the line of Andrew Kligerman from Credit Suisse.

Andrew Scott Kligerman
I'm interested in a little more clarity around the 18% rate increases that you've gotten year-to-date. Could you clarify -- just how does that -- how do you define that? In other words, is it a specific state like New Jersey where you would have gotten 18%? Or is it a cohort within a state, maybe a region or a certain group. Could you clarify that 18%?

Frank Phillip Palmer
Yes. It's a weighted average of the states where we took rate in. So there's some -- we got a wide range. Some states might get 5, some states might get 25, that would be a weighted average of the states that we took rate in. I'd also mention that, that increase is not just base rate increases. A big thing we did this quarter was we actually rolled out a new rating model which has greatly increased segmentation. So we managed to both increase the rates and roll out a new segmentation model at the same time in most of those states.

Andrew Scott Kligerman
I see. So segmentation is part of it. But when you do cite 18%, it is -- if you add New Jersey at 18, New York 20, the average would be 19, and there would be no -- and then you would also adjust for this new model as well? And I got you.

Frank Phillip Palmer
The new model loss ratio improvement would be like in addition to that, we took -- we did 18 rate increases. And the weighted average of those was 19%.

So across those 18 states, we got 19%, and that's not -- not each state gets the same weight, right? It would be weighted average by the amount of premium we have in those states.

Alexander Edward Timm
And to move at that speed with segmentation improvements and truly an entire refitting our entire loss cost models and adding additional segmentation at that speed, that's really unprecedented.

Andrew Scott Kligerman
Those are some high numbers. And going forward, could you give any specific color on your ability to work with regulators, how amenable they are to these rate increases your process in terms of working with them? Just a little color around that would be very helpful.

Frank Phillip Palmer
Sure. So as you probably know, it's working with the regulators is a state-by-state basis, what's allowed, how the regulator view it differs by state and depends on the amount of the rate need and the regulatory environment in each state. We do feel that we've got opportunity to take more rate and work with the regulators in some states. And then there's, of course, our tech, which gives us the ability to kind of quickly make changes in order to take advantage of where we can take rates.

Andrew Scott Kligerman
Got it. And about -- I think it was about 2 quarters ago, you cited your interest in developing business in the independent insurance agent distribution channel. Could you provide a little color on how that's coming along? What kind of traction you're getting?

Alexander Edward Timm
That -- our product there is still live. We are not actively trying to scale that at this time right now given the current environment. And frankly, given the promise that we're seeing right now in the embedded channel, we have doubled down there. It is still live. We do believe that we will scale that in the future. But right now, we're focused on rate adequacy first.

Operator
Our next question or comment comes from the line of David Motemaden from Evercore.

Unknown Analyst
This is Francois in for Dave. Just curious, your gross accident period loss ratio, the 12-point sequential improvement. How much -- could you quantify for us how much of that benefit came from seasonality?

Frank Phillip Palmer
We'd say that some of it's seasonality. Some of it's miles driven, some of it's rate. We don't have a specific breakdown for each one.

Operator
Thank you. I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to management for any closing remarks.

Alexander Edward Timm
Thank you. We appreciate the opportunity to address you and look forward to addressing you in future quarters.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.