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Root, Inc. NasdaqGS:ROOT

FQ2 2023 Earnings Call Transcripts

Thursday, August 03, 2023 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(2.98)	(2.55)	NM	(2.66)	(11.37)	(10.23)
Revenue (mm)	66.31	74.80	▲12.80	68.24	275.52	304.01

Currency: USD
Consensus as of Aug-03-2023 2:50 AM GMT

- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2022	(6.18)	(4.54)	NM
FQ4 2022	(4.76)	(4.13)	NM
FQ1 2023	(3.65)	(2.88)	NM
FQ2 2023	(2.98)	(2.55)	NM

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Presentation

Operator

Thank you for standing by. My name is Robert [McArthur], and I will be your conference operator today. At this time, I'd like to welcome everybody to the Root Inc. Q2 2023 Earnings Conference Call. [Operator Instructions] Thank you.

Now I would like to turn the call over to Jodi Baker, Vice President, General Counsel and Corporate Secretary. Please go ahead.

Jodi Emmert Baker
VP & Secretary

Good morning, and thank you for joining us today. Root is hosting this call to discuss its second quarter 2023 earnings results.

Participating on today's call are Alex Timm, Co-Founder and Chief Executive Officer; and Megan Binkley, Chief Financial 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 discussed within that document, for a more complete information about our financial performance, we also encourage you to read our Q2 2023 Form 10-Q, which was filed with the Securities and Exchange Commission last evening.

Before we begin, I want to remind you that the 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, please review our Form 10-K for the year ended December 31, 2022, 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 in Q2 Form 10-Q released last evening. A replay of this conference call will be available on our website under the Investor Relations section.

I would also like to remind you that during the call, we will discuss some non-GAAP measures, while talking about Root's performance. You can find reconciliations of those historical measures to the nearest comparable GAAP measures in our shareholder letter released last evening and our Form 10-Q filed with the SEC, which are posted on our website at ir.joinroot.com.

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

Alexander Edward Timm
Co-Founder, CEO & Director

Thank you, Jodi, and welcome, everyone.

Q2 was a great quarter for the company. This is the result of our intense work and focus on pricing and underwriting, which have allowed us to reignite profitable growth. Due to our loss ratio, we are uniquely positioned to capitalize on today's marketing environment, while much of the industry is continuing to struggle to underwrite profitably.

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As we've consistently stated over the last 18 months, we believe this was made possible by our superior technology that allows us to identify and react quicker than competitors to changes in the pricing environment. The early actions afforded by this advantage are now evident in our results, as we posted the highest margin in the history of the company, while growing new writings 65% quarter-over-quarter.

In the second quarter, we launched a previously announced partnership and also launched our telematics capabilities on our embedded platform. Our current partnership funnel is strong and continues to grow. This growth has been fueled by our early proof of differentiation in our Carvana partnership, where we have tripled the customer adoption by moving to our proprietary product. We are excited by the continued momentum that we are building on this platform.

Our direct new writings growth in Q2 was driven by reactivating our marketing and product capabilities. This includes deploying marketing in additional states as loss ratios improve, expanding underwriting capabilities and opening up additional product experiences to customers. With our strong loss ratio performance, we were able to drive this growth, while exceeding our profitability targets.

We believe we are currently experiencing strong tailwinds in this channel, as we've seen highly favorable marketing costs, driven by the competitive environment, and are diligently monitoring this environment on a daily basis to ensure we continue to drive profitable growth. From the beginning, we stated our belief that machine learning and technology would revolutionize the insurance industry, while delivering a superior customer experience.

This founding principle continues to guide us today. We made progress on this strategy in our second quarter by deploying our newest loss-cost model, with an estimated 17% improvement in predictive power. We continue to believe this cornerstone of our strategy is in the early stages and that over time, these capabilities will provide outsized returns to our customers and shareholders.

With the combination of loss ratio improvements, technology advancements, direct growth and embedded momentum, we believe we are on the path to profitability with the capital that we have. We are focused on driving the business forward and are proud of the progress we have made to date.

I'll now turn the call over to Megan to discuss our operating results in more detail.

Megan Nicole Binkley
Principal Accounting Officer, CFO & Treasurer

Thanks, Alex. Our full GAAP financial results can be found within the shareholder letter and Form 10-Q published yesterday evening. We marked a return to growth in the second quarter. Our emphasis on deliberate and profitable growth was evident through an increase in policies in force during the quarter, representing our first increase in overall policies in force count in nearly 2 years.

We executed this growth while reducing our second quarter gross accident period loss ratio to 68%, a slight improvement over Q1. Gross written premium for the second quarter was $145 million, an 8% increase quarter-over-quarter. Gross earned premium for the second quarter was $132 million, a slight increase over the first quarter.

On a year-over-year basis, gross written premium of $145 million represents a 3% increase, while gross earned premium of $132 million represents a 23% decline when compared to the second quarter of 2022. We continued to make significant strides in overall operating results, which is reflected in the 17-point improvement in our gross accident period loss ratio and the 12-point improvement in our gross expense ratio year-over-year.

During the second quarter, our net loss was $37 million, a 62% improvement year-over-year. Adjusted EBITDA, our approximation of operating cash consumption, improved 81% over the prior year to a loss of $12 million. Results for the second quarter reflect the continued progress we've made to strengthen the fundamentals of the business and our continued focus on operating efficiency.

As a reminder, we focus on our unencumbered cash balance or cash held outside of our regulated insurance companies to help evaluate the overall strength of our current capital position. We ended the

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second quarter with $520 million of unencumbered cash compared to $524 million at the end of the first quarter. The minimal consumption during the quarter was largely due to an improvement in our operating results as well as a reduction in required capital contributions to our insurance subsidiaries and the timing of various net cash settlements.

As we turn to our financial outlook for the second half of the year, we expect continued investment in deliberate and profitable growth, and as a result, expect to see an elevated level of unencumbered cash burn compared to the first half of the year.

With strict underwriting discipline, we anticipate new writings growth will continue in H2 and will be supported by increased acquisition spend compared to H1. We will continue to prioritize loss ratio improvements and plan to take rate as needed as we monitor emerging loss trends. We are pleased with the progress we've made on operating results and believe we are positioning the company to achieve profitability with the capital we have.
We appreciate your time and your attention and look forward to your questions.

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Question and Answer

Operator

[Operator Instructions] It looks like our first question comes from John (sic) [Josh] Siegler at Cantor Fitzgerald.

Joshua Michael Siegler
Cantor Fitzgerald & Co., Research Division

So you mentioned in your shareholder letter that your product with the new embedded partner went live with telematic capabilities. Can you walk us through how that actually functions from a consumer perspective? And are there plans to launch similar capabilities with the Carvana-embedded product?

Alexander Edward Timm
Co-Founder, CEO & Director

We're really proud of the traction that we've made throughout the year in our embedded platform. We do believe that through our technology, not just telematics, but more broadly, that we're able to meet a customer in their time of need. And we think that the long-term growth opportunity in embedded is material.

So in the second quarter, when we launched our telematics platform within the embedded platform, what really that allows us to do is to collect data in a variety of manners that could be better for the consumer. And so for -- an example of this would be if we're partnering with either financial service applications or different applications where a consumer may not be necessarily in the market for insurance, but sort of will start to collect telematics data in an ambient sense.

And so they might download an app for a different purpose, begin to turn on telematics permissions to look at a variety of things related to their driving and then be presented with an insurance quote later. We also think that through selling and getting closer to vehicles, that there's an opportunity to actually embed telematics directly with vehicles.

We're already and have been -- since 2017, been pulling data directly from connected cars. We plan to expand that program. And we think that -- particularly with Carvana, that there's a very attractive opportunity to get closer to those vehicles when they're in the reconditioning centers to further expand our telematics platform.

So we think telematics is something that's going to continue to expand. We think by having our own proprietary flexible platform, it allows us to put telematics capabilities in novel use cases for the consumer. And we actually think, long term, that, that's going to significantly reduce the barrier to collecting telematics data from customers as we start to make it more sense for them. And so we're excited to continue to expand that.

Joshua Michael Siegler
Cantor Fitzgerald & Co., Research Division

Understood. That's very helpful. For my second question, I was curious, moving forward, how are you thinking about the mix split for new writings between direct channels and the embedded platform?

Alexander Edward Timm
Co-Founder, CEO & Director

I think, in the near future, we're still seeing a very favorable environment on direct, where we are able to really exceed all of our new business profitability targets, while significantly growing new writings in that channel, and we think we're just getting started.

We've really only begun to reignite our growth engines, really over the last 5 to 6 months of the company. And so we think we're in the very early stages there of where that product will go and where that growth

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will go. And we think that, really, the reason we're able to drive that growth is because of our underwriting discipline and our superior loss ratio inside of the industry, which has all been made possible by our technology and data science on pricing.

And so I think, in the near term, the Internet is a very big place, and we have a very small share of it still. And so you should anticipate, in the near term, as that's been our bread and butter for direct, to continue to scale nicely.

That said, we still believe that we are in the early stages of a secular shift in distribution. And that, longer term, we believe that more and more of our customers will be coming from embedded, but we anticipate that growth to really be seen more in 2024 than in 2023.

Operator

Our next caller comes -- is Yaron Kinar from Jefferies.

Charlie Rodgers
Jefferies LLC, Research Division

This is Charlie on for Yaron. The first question I have is just, in light of recent headlines around letters of credit and reinsurance structures, are you guys considering any changes to your reinsurance program?

Megan Nicole Binkley
Principal Accounting Officer, CFO & Treasurer

Charlie, thanks for the question. As it relates to the letters of credit issue, we became aware of the allegations of fraudulent collateral in connection with Vesttoo a couple of weeks ago. And firstly, I just want to make sure that it's clear that Root has no direct relationship with Vesttoo.

We do have one reinsurer that is potentially impacted. And look, we're constantly evaluating our reinsurance structures to ensure that we've got the right terms for the business. And over the past 18 months, we've been decreasing our external session percentage as the business has been improving.

So as we look at this, the worst case scenario for us would -- for this particular reinsurer, would be for us to exercise our right to commute the deals. And we believe that we could do that with a minimal overall impact to the financial statements given our loss ratio performance.

We've got a strong balance sheet, and we're ready and able to take back this business onto our books, if necessary, which would actually further support underwriting profitability over the long term. So I would say our longer-term strategy is to continue to retain more business and reduce our reinsurance costs going forward. So this is actually consistent with our existing plans.

Charlie Rodgers
Jefferies LLC, Research Division

Okay. And then just in terms of direct premiums written growth, given that you guys have already inflected back to growth now, do you expect full year growth to be positive?

Megan Nicole Binkley
Principal Accounting Officer, CFO & Treasurer

Yes. Thanks, Charlie. I appreciate that question as well. As we reflect on the first half, our expectations, in terms of PIF growth and GWP, have beat our expectations, and that's really been driven by the work that we did in 2022 and continue to do in 2023 to strengthen the fundamentals of the business.

So that's really put us in a position to increase PIF earlier than we initially expected. And we're going to continue to do that as long as we've got strong profitable unit economics for the new business, and that we remain confident in our loss ratio performance.

So we are expecting that -- for the second half of the year, we are expecting that PIF will continue to increase as well as gross earned premium will continue to increase relative to H1.

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Charlie Rodgers
Jefferies LLC, Research Division

Okay. And then one last one, if I may. You guys had favorable development in the quarter. So I'm just curious, number one, what the source was if you're able to call it out? And then number two, if any development was intra-year, so including development from the first quarter of '23?

Matt Bonakdarpour
Chief Technology Officer

Yes, thanks for the question. This is Matt. Thought maybe I could tell you a little bit about how we think about reserving internally and some of the actions we've taken over the last 1.5 years. So internally, we maintain an ensemble of different types of reserving models, spanning a continuum that kind of looks at both short-term trends and long-term trends. And that allows us to ensure we're diversifying our modeling capabilities and not really risking deficiencies of any one type of strategy.

On the short-term side, we are heavily invested in the data and technology required to power these models. It enables us to remarkably refit these models on a weekly basis, and not only take into account the actual experience that's coming in, but the trends in the business.

And so what that's allowed us to do in 2022 was to identify trends in repair costs that were coming through supplemental payments, and we took in 2022 some adverse development to reflect those trends that we were seeing, and on a go-forward basis, ensure our reserves were reflecting those trends that we had identified. And so, at the same time, we're able to react to those trends from a pricing perspective, and that has put us into this superior loss ratio position.

From a favorable perspective, it was actually outside of the repair costs that we took the favorable development. And on a year-to-date basis, we're feeling very good about the development. It's essentially zero when you look at the Q1 versus Q2 results.

Operator

Our next questioner is Hristian Getsov from Wells Fargo.

Hristian Getsov
Wells Fargo Securities, LLC, Research Division

I had a question about the new pricing model. I guess what does that mean for like loss ratios moving forward? I guess that it's like 17% more accurate, but like how fast can you kind of see that benefit? And is there maybe like higher costs associated with it, just given that there's double the data that there was in the old model? I don't know if you could quantify like -- if you use the old model in 2023 versus the new model, like how could that benefited loss ratios?

Matt Bonakdarpour
Chief Technology Officer

Yes, thanks for the question. This is Matt again. So we're really proud of the work we've done in the pricing space. We've invested heavily over the last 2 to 3 years in the technology that powers the pipeline from research and development, all the way through deploying these models in production.

So that allows us to take advantage of new data sources, increase exposure volume and test new statistical methodologies that improve the predictive power of these segmentation models.

The power of segmentation really comes through in mitigating adverse selection. And we believe that the improvement to these -- due to the predictive power of these models, coupled with the underwriting changes and the base rate increases we're taking, we'll continue to see favorable development in our loss ratio on a go-forward basis.

Hristian Getsov
Wells Fargo Securities, LLC, Research Division

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Got it. And then for my second question, I guess, can you talk a little bit more about just kind of the Carvana partnership and kind of traction there? Because embedded as a percentage of new writings was lower versus prior quarters just because direct was up so much.

But maybe kind of talk about what you're seeing there? Because we started to see like new car and used car prices kind of come down in recent months, and I think demand is drying up a little bit. So maybe you could talk about what you've seen in recent months in that channel?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes, absolutely. This is Alex. For Carvana specifically, and our embedded platform more generally, we are seeing and believe that we're going to continue to see consistent growth and certainly, growth on a year-over-year basis that we saw in Q2. We think that, that -- in terms of new writings, we believe that, that will continue. And we want to continue to push more new writings growth more generally into the future, not just through the remainder of this year from where we are today, but also through 2024.

We think some of that will come from our Carvana partnership, which has been very strong and continue -- and we continue to see strong results in Carvana. And then also really a growth from the more general platform and as we onboard more and more partners.

Right now, we are seeing very favorable traction in our funnel to get more partners, and that's really been driven by two things. The first is, at this point, we really have a clear differentiation that's been proven in the adoption rates that we've been able to drive in Carvana.

We actually have tripled the customer adoption of insurance on the Carvana platform from moving from what they were originally using, which was an industry standard product onto our product. That has clearly been noticed by several potential partners, and we've continued to see lots of traction going forward.

And so we're excited to continue to expand that platform. It will take time to get those partnerships live and it will take time to find product market fit with each of those individual partners, but we think that, long term, it's going to be a very healthy growth engine.

Operator

Our next caller is Peter Knudsen from Evercore.

Peter B. Knudsen
Evercore ISI Institutional Equities, Research Division

Could you talk a little bit more about what exactly is driving that elevated cash burn in the second half of the year? Particularly if you said there's caution on extrapolating these growth levels moving forward, do you not expect as much underwriting improvement? Or is it really just a result of the [ramps] marketing and acquisition spend?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes. I think -- first, I think -- before we go into details on that, I think it's vital to understand that we are not growing at the sacrifice of profit. And that while you may see near-term capital burn increase, it's actually on the contrary. We believe that this growth will drive the company to profitability.

And given our strict underwriting discipline, and really what is now an industry-leading loss ratio, we think that this is an ideal time to begin to turn back on many of our growth levers. And so as we do that, I think that, that's what you might see, in the near term, accelerate some cash burn.

Megan Nicole Binkley
Principal Accounting Officer, CFO & Treasurer

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Yes. Thanks, Alex. At the risk of sounding repetitive, I do think it's critical to understand that our main priority is protecting our capital in the business, with a focus on both disciplined and cautious new writings growth and profitability.

So as we look to the second half, we'll continue monitoring the competitive environment to determine what the optimal spend levels will be. And I'm happy to provide a little bit more clarity on how much we're expecting to spend related to acquisition costs.

So in each one, for context, we incurred around $25 million in acquisition costs. And in H2, we're expecting to spend roughly $50 million in acquisition costs. Around 50% of that will be performance marketing. But again, it will be heavily dependent on the environment, and we are not going to sacrifice profitability for growth. We also still expect favorable results in terms of capital consumption in 2023 compared to 2022.

Peter B. Knudsen
Evercore ISI Institutional Equities, Research Division

Okay. Great. That's helpful. My second question, the 8% severity was less than it was in 1Q. So I guess could you talk a little bit about what you're seeing and why you're assuming severity has dropped for Root?

Frank Phillip Palmer
Chief Insurance Officer

Sure. Thank you. This is Frank. We have seen both the decrease in frequency and an increase in severity. Those varied quarter-to-quarter, and some of that is driven by our mix of business and our new and renewals.

As we think about kind of the historical severities, and we think that kind of net trend, which should be the overall impact of frequency and severity, kind of the overall loss trend, we think was going to be in the high single digits, and we anticipate taking rate to keep up with that pace.

Operator

Our next caller is Charlie Lederer from Citi.

Charles William Lederer
Citigroup Inc., Research Division

So maybe following up on Peter's question. I think Alex said that this is the growth that you guys see getting Root to profitability. And clearly, you're growing in a measured way. Is there a level of premium that you think you need to get to in the next few years or whenever to get to profitability?

Alexander Edward Timm
Co-Founder, CEO & Director

We think -- really there's three primary levers that we began executing on to drive the company to profitability, and it's what our laser focus is right now. So our #1 priority is to drive the company to profitability with the capital we have.

And there's three primary levers that we're focused on to do that. The first is the loss ratio, and we are well on our way to pulling that lever. And I think now, both with double-digit year-over-year improvements in the loss ratio, which has been tremendous and also just an industry-leading loss ratio, where we now have a superior loss ratio to most, if not all, of the top 10, it was really lever #1.

Lever #2 was reducing fixed expenses. So we pulled 12 points of fixed -- of expense ratio, gross expense ratio improvement on a year-over-year basis, and we're continuing to execute on expense savings. And so we do believe, going into '24, we will see additional improvement to our total fixed expenses from 2023. So we're also well on our way to that pillar of the strategy and making sure we're getting profitable. And then the third is what you're touching on, which is now you have to drive profitable growth.

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So clearly, with a 65% growth in new writings quarter-over-quarter and an improvement in our loss ratio, we're also well on our way there, but we still believe we're in the very early stages. And so what we want to do and what you should expect from us is to continue to scale and we believe, over the next couple of years, that we'll certainly drive the company to profitability.

And what we really want to do is to continue to drive growth, provided that we are seeing the favorable loss ratio performance that we're continuing to see. If that stops being the case, we will stop driving growth. And so the priority is: number one, getting profitable with the capital we have; number two, driving as much incremental growth as we possibly can with -- while hitting our profitability targets.

And so we think that we'll be able to grow well beyond what just gets us to breakeven, but -- in any event. And we also believe that there will be a favorable growth environment. And as long as that persists, you should expect us to continue to drive top line growth.

Charles William Lederer
Citigroup Inc., Research Division

Great. That's very helpful. Just wondering, I guess, as my follow-up, on the marketing spend, can you talk about how the efficiency of that spend is tracking versus Root's historical averages? And how much do you see that benefiting from the challenging loss environment at your larger competitors?

Matt Bonakdarpour
Chief Technology Officer

Yes, thanks for the question. This is Matt. So in terms of our marketing investment, we're really focused on the channels where we have a right to win because of our investment in data and technology. And so today, those channels are our performance marketing channels, which include our vertical search channels, search engine marketing and direct mail.

These channels allow us to use the machine we've built that leverages granular machine learning models to allow us to deploy our marketing spend in a highly targeted way and to use input metrics, like internal profitability metrics and the competitive landscape, to take advantage of the current opportunity ahead of us. And as those metrics change, we expect the machine to adapt. As long as the opportunities remain, we'll capitalize on them. When the opportunities go away, the machine will adapt in the same way.

Like Alex and Megan said earlier, the focus is profit. We don't have an objective to spend a certain amount of marketing budget. The machine is trying to maximize profit and hit our return targets. So it will continue doing that and adapting in a way that makes sense to optimize that.

We do believe that, in part, this growth is driven by the competitive landscape, but a bigger driver of it is our superior loss ratio, due to the fact that we were able to identify and react faster than the industry.

Operator

Our next question comes from Tommy McJoynt at KBW.

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

Can you talk about the trajectory of the conversion of the gross and the net loss ratio? Is that merely a function of just reaching a gross loss ratio threshold where you're no longer hitting loss corridors?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes, that's a big part of the function. And I think it's important to note that as we have continued to drive really remarkable improvements in our direct and gross loss ratio, not only will you see us come out of those loss ratio corridors, but it also becomes really vital for us to continue to manage that reinsurance cost down. And so we are consistently seeding less business, and we plan to do that going forward to buoy our operating income.

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

Okay. Got it. And then can you just add a little bit more details around those items that you mentioned for the quarter that prevented unencumbered capital from declining more? You called out a few items, so I just want to get a little more understanding on what exactly those entailed.

Megan Nicole Binkley
Principal Accounting Officer, CFO & Treasurer

Yes. Thanks, Tommy. This is Megan. So at the end of the second quarter, our unencumbered capital was $520 million, and that compares to $524 million at the end of the first quarter. Really a minimal change quarter-over-quarter due to an improvement in net loss, primarily driven by a reduction and loss in LAE, which is driving immaterial contribution down to our insurance companies.

And then we had a couple onetime items that came through around $5 million in terms of cash inflows that we don't expect to be recurring. But in terms of the $520 million, minimal change quarter-over-quarter, and that really represents the funds that we've got available to run the business.

Operator

And this looks to me like our final question. It's Weston Bloomer from UBS.

Weston Clay Bloomer
UBS Investment Bank, Research Division

A couple of follow-ups for you. I guess could you break out what percentage of your states are now rate-adequate? I think in the past, it was in the low single-digit range. So curious if you have an update there.

Frank Phillip Palmer
Chief Insurance Officer

Sure. Thank you. This is Frank. We think that 80% of our footprint is now rate-adequate or at single-digit indications.

Weston Clay Bloomer
UBS Investment Bank, Research Division

Okay. Great. And then on frequency, that's been materially lower over the last couple of quarters. I guess what do you have baked in for future pricing assumptions around frequency? Can you parse out a little bit more why we're seeing the bigger declines? I know you highlighted tenure, but the drop off, I guess, is a little more material than I would have thought. So if you could expand on that, that would be great.

Frank Phillip Palmer
Chief Insurance Officer

Sure. This is Frank, again. I'd say -- I'd first start off with, we look at what our premium trends are and what our overall loss trends are. So as I mentioned earlier, we think that we still need a hefty amount of rate just to keep pace. So we're targeting high-single digits as far as our like overall trend selects.

Now that, of course, is a mix of the frequency and severity. But we think that, overall, as we put it all together, what we're really interested in and what we're really pricing to is kind of that future amount that we think costs are going to be going up, which we think is in the high-single digits.

Now the actual -- between quarters, there's a lot of mix shift. We are seeing tenuring of our renewal book. So it's not just a new and renewal mix, but like we have more 7-year-old -- we didn't have many 7-year-old customers 2 years ago. Now we've got more 7-year-old customers.

So some of it is just our renewal book as itself has been tenuring. Some of it is the mix of business has been changing. Our segmentation -- our pricing segmentation, our pricing models have really been driving

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towards more preferred business, where we're seeing a mix shift towards more preferred customers, which tend to have lower frequency and some higher severity.

And so as we look at it and we think of all of those mix shifts together, what we're really thinking is they're still -- hey, if you think of normal kind of historic trends are in the 4% range, we still think that we're seeing probably double that as far as like overall kind of loss or rate need trend.

Weston Clay Bloomer
UBS Investment Bank, Research Division

Great. And then, I guess, do you guys disclose where your average tenure is or -- versus what it was historically or the mix between preferred and nonstandard? Can you just expand on the numbers on how that's changed?

Alexander Edward Timm
Co-Founder, CEO & Director

We don't disclose those publicly. I'd say as we continue to build our data sets and continue to observe customers in later tenures, and we're updating our pricing and segmentation models, we do look at lifetime-based pricing. And as part of that, what we have consistently seen now is that we're becoming more and more competitive with a more preferred customer segment.

Operator
Thanks. Ladies and gentlemen, that concludes today's conference call. Thank you for joining. You may now disconnect.

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