S&P Global
Market Intelligence

Root, Inc. NasdaqGS:ROOT

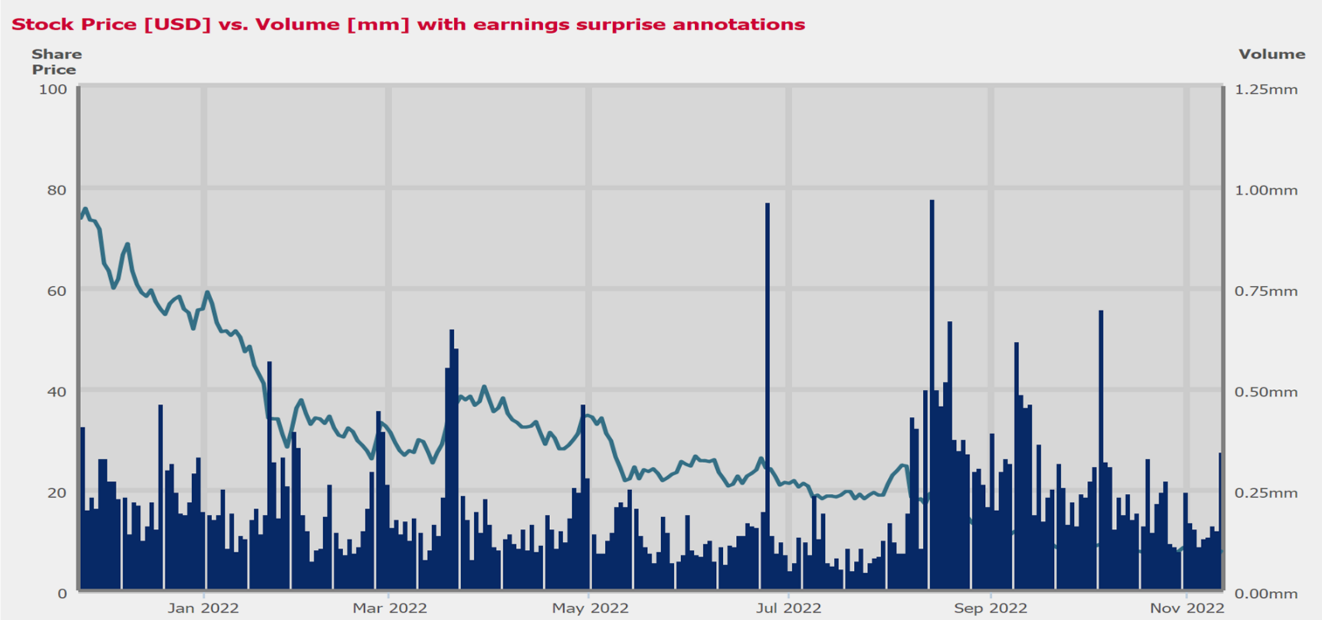
FQ3 2022 Earnings Call Transcripts

Thursday, November 10, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(6.02)	(4.54)	NM	(4.55)	(20.92)	NA
Revenue (mm)	74.63	73.70	(1.25 %)	66.83	306.26	NA

Currency: USD
Consensus as of Nov-10-2022 5:15 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	(8.54)	(6.79)	NM
FQ1 2022	(7.61)	(5.40)	NM
FQ2 2022	(7.69)	(6.48)	NM
FQ3 2022	(6.02)	(4.54)	NM

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EXECUTIVES

Alexander Edward Timm
Co-Founder, CEO & Director

Daniel Harris Rosenthal
Chief Revenue & Operating Officer & Director

Frank Phillip Palmer
Chief Insurance Officer

Jodi Emmert Baker
VP & Secretary

Robert Harold Bateman
Chief Financial Officer

ANALYSTS

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Francois Maisonrouge
Evercore Inc.

Keeler Patton
Cantor Fitzgerald & Co., Research Division

Mark Douglas Hughes
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Matthew John Carletti
JMP Securities LLC, Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

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

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Good day, and welcome to the Root, Inc. Third Quarter 2022 Earnings Conference Call. Please note, today's conference is being recorded. [Operator Instructions] Thank you.

At this time, I would like to turn the conference over to Jodi Baker, Vice President and Corporate Secretary. Ms. Baker, you may begin your conference.

Jodi Emmert Baker
VP & Secretary

Good morning, and thank you for joining us today. Root is hosting this call to discuss its third quarter 2022 earnings results. Participating on today's call are Alex Timm, Co-Founder and Chief Executive Officer; and Rob Bateman, Chief Financial Officer. During the question-and-answer portion of the call, our presenters will be joined by Dan Rosenthal, Chief Revenue and Operating Officer; 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 third quarter 2022 Form 10-Q, which was filed with the Securities and Exchange Commission last evening.

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're 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, 2021, 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 and third quarter 2022 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. I want to take today's call and back up a minute to remind everyone of why we built Root. During the last year, we have continued to comment on how our technology has allowed us to recognize one of the worst inflationary environments to ever hit the auto insurance industry. We have continually communicated how that technology allows us to drive loss ratio improvement above and beyond anyone else in the industry.

In Q3, this is exactly what you saw. We improved our loss ratio 14 points year-over-year, while most others in the industry had their loss ratio go in the other direction. This effectively tripled the margins of our business, and we're continuing to see loss ratio improvements. We have done this while improving our ability to segment risk, underwrite risk and classify risk using what we believe is the very best technology in predictive analytics and software development. That improvement is the bedrock of our ability to profitably scale, but it is just step 1.

Step 2 is building differentiated access to customers. We have further invested in our product innovation through our embedded channel. Even during this runaway inflationary environment, we were able to further differentiate our product as demonstrated by 200% growth on our embedded platform year-to-date. What's more, we believe this channel offers extremely attractive conversion rates, acquisition costs and underwriting ratios. We are progressing towards finalizing our second embedded partnership and look forward to providing further details in the months ahead.

We believe we are at the very beginning of a massive shift in auto insurance distribution and that we are at the tip of the spear. In our direct channel, we are focusing on only writing clearly profitable business with an immediate return. This means utilizing our deep understanding of customer segmentation and geography to drive profitable new writings with very limited marketing spend. By leveraging our ability to quickly retrain our loss models, we can drive frequent increases to the sophistication and accuracy of our prices.

We believe we are in a position to drive growth in the most profitable segments as we go forward. Over the last year, one thing has been made crystal clear, Root must control its own destiny. To do this, we are driving the company to profitability. Year-over-year, we have reduced our operating cash consumption by 55%. As part of this, we had to make the difficult decision to separate with 17% of our workforce yesterday. At the same time, we continue to rightsize our non-head count expenses. Together, these actions will lower our run rate expenses by roughly $50 million annually.

I would like to thank the customers and shareholders that have been with us on this journey. I would also like to share my gratitude with all Root employees, current and past. I am grateful for their hard work and contributions to Root.

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

Robert Harold Bateman
Chief Financial Officer

Thanks, Alex. Our full GAAP financial results are disclosed in the shareholder letter we published yesterday evening, but I want to focus on a few key highlights.

On the top line, gross written premium declined 26% year-over-year to $150 million. Our gross earned premium decreased 18% year-over-year to $155 million. The top line decline reflects higher rates and stricter underwriting in underperforming geographies and customer segments, along with a 91% reduction in marketing spend compared with the third quarter of 2021. These actions have caused new business writings to decrease with renewals making up 79% of gross earned premium this quarter as we focus on profitability.

We are committed to lowering the loss ratio and expenses to further reduce operating losses. During the third quarter, the operating loss was $55 million, a 57% improvement over prior year. Adjusted EBITDA, a KPI we introduced this year to give a clearer view of the underlying performance of our business, excluding certain noncash items, improved 62%.

Gross accident period loss ratio was 79% for the third quarter, a 14-point improvement versus the third quarter of 2021. Our ability to recognize and respond to loss trend early, along with a higher weight of renewal premium have driven consistent year-over-year improvement.

Year-to-date, we have implemented 41 rate filings with an average increase of 35%, representing 97% of our total book. In addition, we have filed revised contracts in 25 states to tighten underwriting, refine our fee schedules and reduce premium leakage. Going forward, we will continue to take rate in response to inflationary trends and in states where we are actively working to address profitability concerns. In combination with the markets where we believe we have adequate pricing, we forecast this approach will allow our loss ratio to continue to improve to our target levels and generate capital over the long term.

As Alex discussed, we have taken further expense actions to decrease cash burn. We are moving closer to our optimal cost structure by further reducing both head count and non-head count expenses. We expect these actions to collectively reduce run rate expenses by roughly $50 million annually.

The fourth quarter will include a restructuring charge of approximately $10.5 million to $11.5 million, including fourth quarter cash expenditures of approximately $7 million to $7.5 million. We ended the third quarter with $629 million of unencumbered capital compared with roughly $696 million at the end of the second quarter. Our operating cash consumption has dropped 55% year-to-date. We are continuing to enact measures to reduce cash burn as we are focused on strengthening the financial foundation of the company.

Turning to our outlook, we expect our results to reflect the actions we are taking as we navigate through this challenging environment. We anticipate that the gross written premium decline will continue into next year as growth in our embedded channel is overshadowed by declines in our direct channel as we focus on accretive business. We expect continued year-over-year improvement in adjusted EBITDA and operating loss in the fourth quarter, though to a lesser degree than the first 9 months as our cost-cutting efforts begin to improve the bottom line in the fourth quarter of 2021.

We are making progress against our strategic priorities but recognize there's further work to be done. By focusing our efforts in capital deployment in areas we believe will produce immediate returns, we believe we are positioning Root to reach profitability and create long-term shareholder value.
With that, we look forward to your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess first question for me. First question relates to kind of similar wording in the letter, profitable new writings in our direct channel with limited marketing, kind of expand upon that what you meant, limited marketing out there. And then as you look out over whatever time period, 3, 5 years, what's your mix that you're looking to do for embedded versus direct because you do say in embedded, it's going to be the primary focus of your business?

Daniel Harris Rosenthal
Chief Revenue & Operating Officer & Director

Yes, thanks for the question. This is Dan Rosenthal. Look, we think embedded it's a really special opportunity as we go forward. And we're seeing the product prove out with better unit economics, better customer experience. And the technology that only we have can really service those needs and drive a superior experience. So that is our focus. We don't put a percentage on it, but you can see in the letter a really nice trend line for the percentage of our new writings that are coming from embedded, and we look forward to growing that in the quarters ahead.

And on the direct channel and really for much of 2022 and you're seeing that continue, we have narrowed our focus to areas that are immediately profitable. We leverage our technology and our learnings to help us find the profitable segments in direct, and that's where our focus has been. But again, going forward, there will be a greater emphasis on embedded as we continue.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess as I think about what else obviously on the beams on your upcoming announcement for the next partnership. But when I think about the universe of embedded, for auto insurance, I think, okay, well, the OEMs. And I think most of the OEMs already have some kind of partnership with somebody. So can you maybe just thinking about in specific with your upcoming announcement, like could you help me give me an educational one-on-one on like what else should I be thinking about for where embedded can be in auto insurance?

Daniel Harris Rosenthal
Chief Revenue & Operating Officer & Director

Yes, absolutely. Look, it's starting with real success in the Carvana partnership. So a growth of 200% year-to-date with a lot more on the product road map in the quarters ahead is exciting. And as we mentioned in the shareholder letter, we're progressing towards finalizing our next embedded partner. We expect to have an announcement in the coming months. And we've got multiple additional prospects in various stages of discussion with more than one of those advancing rapidly.

And so as we enter 2023, we're going to ramp up our business development and our product work going forward on embedded. Our focus is meeting consumers at logical points as companies expand out their platforms to generate revenue across their existing customer bases that it will include companies in the auto sector and the financial services sector. There's actually quite a wide breadth that are interested in learning more about our embedded product and our speed to produce the bindable quote within 45 seconds.

Specifically, with the auto OEMs, a lot of the partnerships that you sort of read about that are in place are not really truly embedded. They don't compare to the product that we have with Carvana. They are not driving a bindable quote within 45 seconds. They are not meeting consumers with a differentiated experience. So we think that there will be opportunities in the quarters ahead, again, across a lot of different sectors to just meet consumers at logical places and build out the embedded channel.

It starts with getting the product right. It starts with getting the technology right. And our learnings that we really have an industry-leading embedded technology that helps our partners quickly integrate a seamless bind experience, that quality, that differentiation is going to appealing -- be appealing to a lot of folks.

Michael Wayne Phillips

Morgan Stanley, Research Division

Okay. Last one, if I could. You had a bullet on your frequency. What's driving the decline -- community declines in frequency for you guys? And then what are you assuming going forward as you do your pricing?

Frank Phillip Palmer
Chief Insurance Officer

Sure. I'll start with as we -- going forward, assuming in our pricing, we've got higher net trends around 9%, 10%. We are seeing kind of flat this year, vehicle prices. So when you look year-over-year, we're seeing higher severity trends than we see like in the most recent 6 months.

On the frequency, we do have mix shifts in our business. We've got some more towards more profitable or more tenured preferred segments. We also have shift -- shifted from new to renewal. All of those will kind of contribute to a lower frequency, higher severity. And then we are seeing some decrease in mileage in third quarter seasonality versus earlier in the year.

Operator

Your next question comes from the line of Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, you provided information right around head count reduction, but you're also focusing right on bringing a new embedded relationship. So how do you say -- I know you said that gross premiums should decline into next year, but do you guys have a sense of when you might start returning to growth? Or is this -- or also a sense of just the level of decline will be the start of next year relative to what we've seen in the third quarter and throughout 2022?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes. First, I would say we are in growth mode when you look at our embedded channel. We have grown those new writings 200% year-to-date, and we expect to continue to grow that channel for us. And we think that there is a huge amount of opportunity in that channel. So we do believe that we are well positioned for growth in that highly differentiated channel, and that's based on our technology.

In terms of when we expect premium declines in our guidance and go forward, I'll turn it over to Rob, you could talk a bit about kind of our expectations.

Robert Harold Bateman
Chief Financial Officer

Yes. I think our expectation is -- this is Rob Bateman, is that premium will decline going into next year and possibly into 2024 as the direct book sort of runs down in states that we have accretive business and we spend very little on direct marketing and as we ramp up with additional partners in the embedded channel.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then you guided that you continue to take a good amount of price -- rate increases. I guess where are you in terms of the rate increases? And what do you expect, I guess, through the balance of this year into 2023 from a rate increase perspective throughout your book of business?

Frank Phillip Palmer
Chief Insurance Officer

Sure. In quarter 3, we took 13 rate increases. As mentioned earlier, we've taken 41 throughout this year. We still got about 13% -- somewhere between 10% and 15% rate that's still earning in. We're monitoring, as I mentioned earlier, we've got trend select, future trend selects of around 10%. So we're kind of monitoring those trends and seeing how those pan out, but we are planning to continue aggressively taking rate as long as we are seeing those types of aggressive trends.

Elyse Beth Greenspan

Wells Fargo Securities, LLC, Research Division

And then last one, like you guys did point out, right, that the underlying loss ratio did get trend better in the quarter. Would you expect that to continue?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes, we do expect that to continue, and we've seen continued progression through October. We do -- with that rate earning in, with an on-level loss ratio that is materially below our Q3 loss ratio, we expect continued improvements until we hit our targets.

Operator

Your next question comes from the line of Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

First question, going back to the frequency improvement. So I think you called out the mix change as part of the driver there. Can you maybe elaborate on that a little bit? Do you see that as a direct impact from the Carvana embedded growth? Or is there something else? And I guess the reason I'm asking this is just I'm trying to figure out if there is a risk that maybe we see that loss ratio while still improving, maybe not improving as much a frequency trend stabilize.

Frank Phillip Palmer
Chief Insurance Officer

Yes. I think of -- this is Frank. When I think of those loss trends, we're -- again, we're pricing to 10% future increase trends. So we're expecting losses to go up 10%. So frequency going down or severity going up that mix, we're more concerned about the total. Now we know that new business has higher losses than renewal. So if we start to grow more, you're going to see that frequency severity shift go up.

But if we're taking overall enough rate to maintain the loss ratio, even if you saw a frequency go up, you'd still expect the loss ratio to go down if we're taking an up rate. So that's the way we look at it. So some of those mix shifts, to your question, yes, are into more profitable segments. Some of that is mix shifting into Carvana. Some of that is with our new segmentation models. We're seeing more preferred segments get lower rates. And so we're seeing a mix shift into those segments as well as the new renewal mix shift that we're seeing. So all of those kind of combine to that frequency decrease. But again, that's an observed frequency severity quarter 3 over quarter 3, not necessarily what we expect going forward.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it. And then with the head count actions that you took overnight, I think those come on top of actions earlier in the year. So can you maybe talk a little bit about where the reduction is coming from? Is it broad-based? Or is it concentrated in specific units? And maybe how do we, as outsiders, look at this and have confidence that you're not cutting to the bone?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes, thanks for that question, Yaron. So where we are focused right now is on driving the company to profitability. And so we have been taking aggressive expense action throughout the year on both head count and non-head count, and we have materially reduced our cash fixed expenses year-to-date. And we think that, that is appropriate given the increase in cost of capital, given the uncertain environment that we are in, and we believe that that's very necessary.

Now I will point out, in terms of cutting to the bone, during that period where we were eliminating almost 50% of our cash fixed expenses, we were still able to ship what we believe is an incredibly innovative product with Carvana and actually grow that product 200% almost entirely through product improvements and innovation and the flows and the experience for customers. So we do not believe that we are cutting to the bone.

In addition, we were able to make meaningful segmentation improvements and continue to make meaningful segmentation improvements in our models. So we are still actually able to keep the momentum going forward. Rob, do you want to comment a bit on where exactly the expense savings are occurring?

Robert Harold Bateman
Chief Financial Officer

Sure. So if you think about what we're talking about is more of a pivot to embedded growth. So if you were to look at our head count reductions, they really were around marketing and other things -- marketing employees, personnel that support and other areas that support the direct channel. And then just other areas that we just felt that we needed to take some head count out as our premium comes down.

Operator

Your next question comes from the line of Matt Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

I guess I have one question left that -- a lot of others have been answered. In your letter, you say that we believe we have the ability to reach breakeven in the coming years. My question is, is the caveat to that without raising additional capital? Or do you see that happening with the need for additional capital down the road?

Robert Harold Bateman
Chief Financial Officer

So Matt, this is Rob. I would say, we have -- we believe we have enough capital to execute our strategy in the coming years. If you look at the combination of the reductions we're taking in the loss ratio, we're implementing policy holder fees, minimizing marketing expense and reducing expenses. And even this year, we're going to invest about $400 million of our cash to take advantage of the interest rates. So we're doing everything we can to either reduce cash burn or generate cash.

And we look at the growth trajectory over the next couple of years with embedded. We believe we have enough capital to execute that strategy. What we really want to do is control our own destiny. That's what we're talking about around here a lot is what do we have to do to control our own destiny through both, like I said, expense reductions and through the underwriting and even in the investment stuff that we're doing.

The other thing, I'd say, of course, it always just depends on what happens in the macro environment. But the way we look at it now with the actions we've taken and what we've done in the past and going forward, we think we can -- we have the runway to execute our strategy.

Operator

Your next question comes from the line of Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

I think I heard you comment that you expect to take some rate actions and these rates are still earning in. But if I could get some clarity on a comment you made in your shareholder letter, where you mentioned you believe you have achieved rate adequacy in a significant number of your markets. So how much of that book does significant markets represent? And what gives you confidence that you've achieved rate adequacy?

Frank Phillip Palmer
Chief Insurance Officer

Sure. So this is Frank. As we think about the overall loss ratio, that certainly varies greatly by state. So for example, California hasn't allowed rate increases for almost 2 years. So -- and we're not rate adequate there. We pulled back, greatly shrank our writings there. We are rate adequate now, we think, in between 5 and 10 states. We do have rates still rolling in, in those states. And then there's other states that we expect to be rate adequate in the next year.

So we're starting -- as we talk about that focused marketing, we're doing limited amounts of focused marketing, targeting some of those states where we believe we are rate adequate and then, in particular, segments where we think can be capitally accretive in the short term.

Alexander Edward Timm
Co-Founder, CEO & Director

And I'd add, when we look at the third quarter, we have an on-level loss ratio, so accounting for all of the rates that we have already taken. This does not even account for the future rate we will take. We are seeing an on-level loss ratio in the low 60s. And as we publicly said, our long-term target is 65%. So that gives us a lot of confidence when you look at the book of business that we have taken appropriate action to get to rate adequacy in many areas.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

So what percentage of your book premium-wise is those 5 to 10 states represent?

Frank Phillip Palmer
Chief Insurance Officer

About 40%.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. And then just going back to the frequency comments about the improvement. You said you're not expecting that to continue. So when you come up with your loss picks, are you seeing or booking a number that reflects your perspective view and not what you're seeing now on the frequency side?

Frank Phillip Palmer
Chief Insurance Officer

Correct. We're pricing to expected future loss trends, which as I mentioned, we're seeing between 9% and 10%, and not necessarily on the year-over-year, right? So again, what we published for frequency and severity are year-over-year, are quarter 3 to quarter 3. And so last year, you had dramatically increasing phys dam but not as much on the liability or medical cost. This year, we're seeing much flatter on the phys dam severity. Used car prices have been flat most of this year, but we're seeing some increase in litigation and medical costs. And so I wouldn't set the prices based on the frequency severity of quarter 3 over quarter 3. And so we're setting our future rate need and future rate expectations based upon that in total, about 10% going forward.

Operator

Your next question comes from the line of Francois Maisonrouge with Evercore.

Francois Maisonrouge
Evercore Inc.

In the press release, you mentioned the goal of decreasing cash burn next year. Can you quantify that for us? How much less cash burn would you be expecting in 2023?

Robert Harold Bateman
Chief Financial Officer

Well, this is Rob. Like I said earlier in the call, we're doing everything we can to decrease cash burn and generate cash. We expect our cash burn to be substantially less next year than it was this year. We haven't published a number yet on that, but we do expect it to be significantly lower than this year. You could see year-over-year, if you look at our adjusted EBITDA, we improved 60 -- we improved 62% there year-over-year. And we plan to -- with the rate actions we're taking, the loss ratio improvements and things we're doing on fees, expense reductions we've taken as well as other things we're doing with the business, we do expect the cash burn to be significantly lower next year.

Francois Maisonrouge
Evercore Inc.

Got it. And just on the timing of the $50 million annual expense saves, when would you expect to reach that full $50 million?

Robert Harold Bateman
Chief Financial Officer

I would say by the end of -- the head count reductions piece will reach for the full year of 2023. On the non-head count reduction, it will take for the full year to recognize the rest of that $50 million.

Operator

Your next question comes from the line of Mark Hughes with Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Can you just talk about your posture towards reinsurance, what are you seeing in terms of pricing dynamics, how much you intend to perhaps rely on reinsurance on a go-forward basis?

Robert Harold Bateman
Chief Financial Officer

So this is Rob again. The -- so on the reinsurance market, so if you think about our program, we have a number of treaties in our programs. So we have a typical cat treaty for auto. We also have a single occurrence XOL. But our primary capital support is some quota share agreements. We have a total of 3 quota share agreements that we have -- we renew each year.

Right now, what we're seeing in the market, we've been able to, for the most part, get the turns that we want to get. We haven't really seen a lot of pressure on the terms and pricing for us. We have taken our quota share down by a pretty small amount. So for example, one of them, we went from the 35% quota share to a 30% quota share. But we really haven't seen our terms tightening much. We do expect that as our loss ratio gets better, however, that we will pull back on the quota shares over time. Our quota shares include some loss corridors that are a bit punitive that we like to, as we move over time, remove those loss quotas from our agreements.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then I didn't get that number, but the unencumbered capital at the end of the quarter, what was that number?

Robert Harold Bateman
Chief Financial Officer

I think it was -- yes. It's in the script.

Operator

Your next question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions here for you. First, did you have any losses from Hurricane Ian? Was there any cat losses in the quarter? Because I know there's some auto loss in that hurricane.

Robert Harold Bateman
Chief Financial Officer

Brian, this is -- just to go back on the last question, it was $629 million on unencumbered cash at the end of the quarter. On Ian, we had essentially nothing. We don't have a lot of exposure in Florida. If you think about it, we just started writing in Florida a couple of months ago. So our exposure -- the number of claims we've gotten in are very, very minimal at this point.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. And then my next question, I'm just curious, so there's been a lot of press on Carvana recently with respect to their financial situation. And I guess my question is more -- is there much more to do with respect to rolling out that relationship as far as worker investment that Carvana needs to make? Have you seen any slowdown at all in that? And then is there any financial ramifications back to you in the event something does happen with Carvana?

Daniel Harris Rosenthal
Chief Revenue & Operating Officer & Director

Brian, this is Dan. Thanks for the question. No question, economic conditions are impacting car sales on a macro level. We believe the Carvana team is focused in the right areas. And frankly, where economic conditions are is driving an even higher focus on gross profit per unit, and that means an even higher focus on the insurance product.

So the product road map that we are building is being proven out. We expect it to improve the attach rate next year, and there's focus from both companies on doing so, which is wonderful for our embedded product.

As far as the second part of your question, no, I can't foresee any financial ramifications with the agreement that we have in place with Carvana. It's pretty straightforward that as they continue to sell cars, we're focused on driving attach rate and ultimately leading to new writings. And again, we believe that the macroeconomic conditions around car sales are not going to have a negative impact in our ability to drive new writings.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And then I guess I want to quickly slip in here. I'm noticing that the renters PIF has been declining sequentially for a little while. Can you just remind us what's going on with that business?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes. We have renters really as a cross-sell opportunity. It's a very low-premium product, so we don't look to acquire monoline renters. It's just hard to ever recoup the customer acquisition cost. And so it is a cross-sell product that is primarily active in our direct channel. And so as we have deprioritized, to some extent, the direct channel in favor of growing the embedded channel, we have seen those, the PIF and the policies in force their decline.

Daniel Harris Rosenthal
Chief Revenue & Operating Officer & Director

Yes. Brian, I think -- this is Dan. I think what you're seeing from us is just a laser focus on execution and prioritization. We've been running one play display for more than a year. And you heard from Alex and Frank, it's been paying off. We've turned the corner in terms of leveraging our technology and improving our pricing and underwriting foundation. So now we just got to continue to chart the course for driving the embedded growth and driving that continued focus and prioritization. And that's what we're focused on executing.

Operator

Your next question comes from the line of Josh Siegler with Cantor Fitzgerald.

Keeler Patton
Cantor Fitzgerald & Co., Research Division

This is Keeler on for Josh. So the growth in the Carvana product has been really impressive and exciting to hear that you're close to closing a second embedded partnership. Will the lessons learned and work you did on Carvana make a second embedded product easier to bring to market and scale? And are you able to add any detail around what a second embedded rollout might look like?

Daniel Harris Rosenthal
Chief Revenue & Operating Officer & Director

Yes. Thanks for the question, Josh. This is Dan. We're really excited about the opportunities in the embedded product. That's what you're hearing from us. And what we see as we build the channel is we're really going to have 2 types of products and 2 types of partners. One that's more customized, focused on the underlying customer, focused on the opportunities within that particular partner and within that particular channel. And we are seeing opportunities there to leverage the learnings from Carvana, what has worked, what has not worked into creating a more successful customized product for other partners.

And then we're also finding that in order to drive new writings volume in a positive way, we can leverage those learnings to create more of an off-the-shelf product so that we can drive that faster and more seamless integration with partners that don't require the significant level of customization. And that's part of how we're going to be able to drive new writings with the team and the resources that we have in place.

Operator

Your next question comes from the line of Andrew Kligerman with Credit Suisse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

First question, just need a little more clarification on how you're pricing to 10% increases in rates for future losses. Is that -- does that mean that your work is not done that you really across the board have to take more rate this year? And yes -- and is it coming from -- I think you were saying it's coming from areas like litigation and social inflation. Maybe elaborate on why you need that.

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. So when we think about where we are today, again, when we look at the current loss levels and the current level of where we're seeing severities come in and frequencies come in, we do believe, given our on-level loss ratio being in the low 60s, that we are broadly rate adequate across many markets for where loss costs are today.

That said, going forward, we do believe that as inflation continues, whether it's from social inflation, medical inflation, labor inflation, parts inflation, whatever it may be, we do believe that we need to continue to take rates as the entire industry will need to continue to take rates to keep up with an ever rising cost inside of claim -- our claims costs. So that is when we are talking -- that's what we're talking about when we say a 10% forward trend is that we want to take at least 10% rate sort of going forward so that we can keep up with inflation.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Got it. So hard to say exactly where, but you're feeling it and you expect that inflation to continue. Is that the right way to think about it?

Alexander Edward Timm
Co-Founder, CEO & Director

That's the right way to think about it. I will note we're seeing right now in our actual numbers, something lower than what we are assuming going forward. And so we are in a very conservative stance, we believe, with a 10% forward trend.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Got it. And with your loss ratio having improved so much, when we think about Carvana, which is a lot newer than direct, how is the profitability there? Could you share anything around the loss ratios on your Carvana business to date?

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. We're seeing materially better loss ratios on the Carvana and embedded business. That's largely driven why we believe it's because a lot of these customers are actually purchasing for ease, not necessarily price. And so when a customer purchases on Carvana, they actually are comparing us against fewer options than when they purchase on our direct channel.

We also believe that we've eliminated some moral hazards. So there's less fraud in that channel. And so all of the leading indicators, although it is early, are looking very positive on the Carvana loss ratios. And it is outperforming our direct business from a -- when we look at just those first term early indicators on loss ratio.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Got it. And then just lastly, and congrats on the second embedded product. What are you seeing in terms of competition for that business? I'm sure a lot of the big auto players are taking notice of what you're doing. Are you seeing a lot of competition as you aim to write embedded business? And if you could elaborate on how that's playing out, that would be great.

Daniel Harris Rosenthal
Chief Revenue & Operating Officer & Director

Yes. This is Dan. Thanks for the question. We are seeing a lot of people talk about embedded. But when you think about what Alex just said around ease and around the customer experience, we are not seeing competition in terms of the product that we offer. We are leveraging the technology that we have built to have our partners quickly integrate a seamless buying experience for their customers, and we're doing so, I think, faster than others for two reasons.

One, we've built the technology stack in the right way, and it allows us to access everything interconnected in a very, very fast manner. And then number two, you're hearing from us that embedded is our priority. We are driving embedded auto insurance as our top priority for growth. And as Alex said, we're already in a growth mode. We are already leveraging the foundation that Frank and team, and Matt and team have helped build around the pricing and underwriting side to go forward with the embedded growth.

So driving that prioritization is something that partners and prospective partners are really feeling from us. When they interact with us and they ask questions and they say, can you introduce this product or can you introduce this level of customization to address a specific customer need, we are able to respond very, very fast. We have an embedded team that is second to none, that is deeply passionate about creating a differentiated customer experience that is going to have an impact on the way consumers buy their car insurance for many, many years to come. And that's what our prospective partners are feeling. They're feeling just a speed, a speed to market and a level of customization that no one else has.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Interesting. Actually, gives me one last follow-on. Just given what you announced today with the second partner and what you just said, does this give you a lot of optimism about 2023 and that we'll be hearing about more and more partners that you'll be binding?

Daniel Harris Rosenthal
Chief Revenue & Operating Officer & Director

Yes. Thanks for the question. So just to be clear, we're not announcing a second partner today. We're announcing multiple partners deep into the funnel and, frankly, just excitement around the product. Look, I don't want to be over-exuberant on this. We think that we have built a product that is highly differentiated and showing very, very clear success with our launch partner. And as Alex said, we've scaled those new writings 200% year-to-date. And now we're going to continue to do so, but we want to make sure that we choose the right partners, that we build the right products and then that we test those products in the right states with the right customer segments and then scale them.

So that's our focus. So I'm not promising significant embedded new writings growth next quarter, and I don't want you to think that. But I want you to understand that embedded insurance is our top priority from a growth perspective. We are seeing it work, and we are going to continue to invest in scaling the channel from here.

Operator

Your final question comes from the line of Tommy McJoynt with KBW.

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

Just a quick follow-up or 2 actually on Mark's earlier question on reinsurance. Just confirming if I heard your comments correctly that you have not seen and are not expecting any changes in the ceding commission on those quota share contracts?

Robert Harold Bateman
Chief Financial Officer

Yes. We've seen very minimal change on the ceding commission. What we've done is when -- we've gotten nonconcurrent -- we had nonconcurrent terms to the firm order terms we put out there, we've just backed off on our partnership percentage. We're sticking to what our firm order terms are and just backing off if we see nonconcurrent terms. Now that said, we do see some of the terms within the contracts actually improving a bit when it comes to the loss corridor as our loss ratio gets better, which you would expect, so.

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

Got it. And just remind me, are your quota share agreement staggered or multiyear? Or what's the setup of those?

Frank Phillip Palmer

Chief Insurance Officer

Yes. So yes, the way they work is they're multiyear agreements that are risk attaching. So if we have a risk that we write this year, that quota share will stay with that risk for the period that it's on the books for up to about 4 -- I think it's 4 years, depending on the contract through the 4 years.

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

And then just last one, is there a long-term sort of steady state level for the quota share percentage that you envision?

Frank Phillip Palmer
Chief Insurance Officer

There is. We just have not -- we haven't gotten there yet. We haven't -- we still have some analysis to do around it.

Operator
That concludes today's conference. Thank you for participating. You may disconnect at this time.