Palomar®

First Quarter 2023 Earnings Call Transcript

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PRESENTATION

Operator

Good morning, and welcome to Palomar Holdings First Quarter 2023 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference line will be opened for questions with instructions to follow at that time.

As a reminder, this conference call is being recorded.

I would now like to turn the call over to your host, Mr. Chris Uchida, Chief Financial Officer. Please go ahead, sir.

Chris Uchida

Thank you, Operator, and good morning, everyone. We appreciate your participation in our First Quarter 2023 Earnings Call.

With me here today is Mac Armstrong, our Chairman and Chief Executive Officer. As a reminder, a telephonic replay of this call will be available on the Investor Relations section of our website through 11:59 PM Eastern Time on May 11, 2023.

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include remarks about Management's future expectations, beliefs, estimates, plans and prospects. Such statements are subject to a variety of risks, uncertainties and other factors that could cause actual results to differ materially from those indicated or implied by such statements. Such risks and other factors are set forth in our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission. We do not undertake any duty to update such forward-looking statements.

Additionally, during today's call, we will discuss certain non-GAAP measures, which we believe are useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with U.S. GAAP. A reconciliation of these non-GAAP measures to the most comparable GAAP measure can be found in our earnings release.

At this point, I'll turn the call over to Mac.

Mac Armstrong

Thank you, Chris, and good morning everyone.

Following a record year in 2022, I'm pleased with Palomar's strong start to 2023. Our first quarter results demonstrate continued momentum in our business and further execution of our Palomar 2X strategy. Highlights for the quarter include 46% gross written premium growth, an adjusted combined ratio of 73.3%, and an adjusted return on equity of 20.7%. Importantly, these results were achieved even with elevated catastrophe activity during the quarter.

Selected strategic and operational accomplishments in the quarter were the purchase of an additional $188 million of excess of loss reinsurance to support our growth in Earthquake, the acquisition of Real Estate Errors and Omissions, MGA XEO Insurance Services, and several key hires in our Casualty Underwriting, Data Analytics and Actuarial departments.

At the end of 2022, I detailed four key strategic initiatives for 2023. One, sustain our strong profitable growth trajectory; two, manage the dislocation in the global insurance market; three, deliver predictable earnings; and four, scale the organization. The results of this quarter exemplify our ability to execute on each of those goals.

Turning to our first quarter results, our core Earthquake franchise grew 31%. The Residential Earthquake grew 20%, while our Commercial Earthquake line grew 50%. The hard market induced dislocation in the earthquake market persisted into the first quarter, affording Palomar a chance to both grow and optimize its Earthquake book of business. Increased utilization of Palomar Excess and Surplus Insurance Company, our E&S carrier in the Residential Earthquake line, is a prime example of this dynamic. Specifically, we wrote approximately 27% of our Residential Earthquake new business on E&S paper in the quarter and now have approximately 10% of the Residential quake book written on an E&S paper. The E&S lever also optimizes the use of our reinsurance capacity and enables us to maintain our margins.

Also contributing to our top line growth in the quarter were two property lines of business with limited catastrophe exposure. Inland Marine and Excess Property. Inland Marine grew 70% as compared to the prior year, as we continue to expand our geographic reach and distribution footprint. Our Excess Property line grew 531% year-over-year as it builds an attractive book of non-cat exposed property business. Importantly, both products are generating attractive loss ratios and margins.

All our property products continued to benefit from rate increases and enhanced terms and conditions. Commercial Earthquake saw risk-adjusted increases of approximately 20% in the quarter with March renewals approaching 25%. Our E&S commercial all-risk book saw average rate increases north of 50% and an exposure decrease of approximately 48% year-over-year. Our Inland Marine book saw regional variance in pricing with builder's risk accounts seeing inflation-adjusted new projects priced 7% to 10% above the prior year.

Turning to our Casualty business, we continue to see growth and market traction across this business. Overall, Casualty growth remains a key strategic imperative as new lines of business are generating attractive economics with a lower volatility loss profile than our property business, and also provide further product diversification. The Casualty segment grew 143% year-over-year, highlighted by strong production in professional liability and excess liability.

From an underwriting standpoint, the Casualty book's loss performance remains sound, which is best evidenced by the improved ceding commission attained at renewal for our 4/1 professional liability and general casualty quoted share. While we have not seen rate actions like that in the property market or casualty business, the rate environment is stable. Casualty lines saw increases in the range of 3% to 10% in the first quarter.

During the quarter, we acquired XEO Insurance Services to bolster our professional lines and casualty franchise. XEO is an MGA in the real estate E&O space, focusing on mid-sized real estate brokerages in California and other Western states. XEO brings another specialty products to Palomar, as well as enhances our professional liability margin. It provides Palomar both growth and a predictable earnings stream.

PLMR-Front continues to deliver rapid growth, generating $91.8 million of premium versus $29.8 million in the prior year quarter. While we are pleased with the growth in fronting, we remain acutely focused on compliance, oversight and collateral management of our less than 10 fronting partners. The fronting strategy is premised upon providing value-added services to a select group of MGAs, carriers and reinsurers. This approach allows us to provide a comprehensive and additive service, prudently learn the line of business, and importantly, avoid surprises. A prime example of our fronting strategies is our newly cemented partnership with Advanced AgProtection, a leading crop MGA.

In the quarter, Palomar became one of only 14 approved insurance providers, known as an AIP, with access to the $20 billion insured crop marketplace. The partnership also established a new growth vector in the specialized lines of business. Like our other fronting arrangements, Advanced AgProtection diversifies our product mix, while adding to our fee income base, the key tenet to Palomar 2X. The premium history will be modest, but the potential for growth is significant.

Turning to our Reinsurance program, the first quarter was a demonstration of the quality of our book of business and our ability to navigate the choppy waters of this hard reinsurance market. During the quarter, we were pleased to successfully place $188 million of incremental excess of loss reinsurance limit to support the growth of our Residential and Commercial Earthquake business. We are encouraged by the pricing, approximately 27% up on a risk-adjusted basis, and the terms that we secured as they are in line with the assumptions used to formulate our adjusted net income guidance. Additionally, as previously mentioned, we renewed our main Casualty quota share at improved economics from the expiring treaty terms.

On April 1st, we elected not to renew our aggregate cover after determining that utility protection was materially diminished by the considerable reduction in our continental hurricane exposure and probable maximum loss. To provide more context on the impact of our material PML reduction and the underwriting changes made over the last several years. If the 2020 wind season were to transpire in 2023, the $64 million of net losses incurred from the numerous storms of the 2020 vintage would be less than $10 million in aggregate today, and only one of the storms would qualify for recovery under the expired aggregate. While there was reinsurance capacity available to support the aggregate cover, it did not make economic sense to renew. Therefore, we will explore alternative coverages to provide protection from higher frequency severe events.

We are currently in the midst of our 6/1 reinsurance placement with firm order terms out of the market this week. As always, we intend to share comprehensive details once complete. Additionally, we are marketing a multiyear Earthquake-only Catastrophe bond, the fourth such issuance from Torrey Pines Re, that will provide incremental limit to support our growth in our bellwether line of Earthquake. We continue to see value in the incorporation of multiyear ILS solutions into our Comprehensive Reinsurance program. We are encouraged with the progress to-date on the core program and are confident that we can secure the capacity to achieve our strategic objectives in 2023 and beyond. We are optimistic that we will exit our 6/1 reinsurance placement with a risk transfer program similar to that of years past and that the cost of reinsurance will be in line with the assumptions used to provide our full year 2023 guidance.

From a capital management standpoint, we remain conservatively capitalized with a net premium earned to surplus ratio below 1x. As such, we will continue to allocate capital towards both growth initiatives and opportunistic share repurchase. We repurchased 134,680 shares at a total cost of $6.8 million in the first quarter and another 84,547 shares at a total cost of $4.6 million thus far in the second quarter.

Turning to 2023 guidance, we reiterate our expectation to generate adjusted net income of $86 million to $90 million. This guidance reflects Catastrophe losses incurred in the quarter, and moreover, incorporates our current expectations for our Reinsurance renewal which remains at a risk-adjusted increase of approximately 30%.

With that, I will turn the call over to Chris to discuss our results in more detail.

Chris Uchida

Thank you, Mac. Please note that during my portion, when referring to any per-share figure, I'm referring to per diluted common share as calculated using the treasury stock method. This methodology requires us to include common share equivalents such as outstanding stock options during profitable periods and exclude them in periods where we incur a net loss.

As a reminder, beginning in the fourth quarter of 2022, we have modified our definition of adjusted net income, diluted adjusted EPS and adjusted ROE to adjust for net realized and unrealized gains and losses. We have modified the current and prior period figures accordingly.

For the first quarter of 2023, our net income was $17.3 million or $0.68 per share compared to net income of $14.5 million or $0.56 per share for the same quarter last year. Our adjusted net income was $20.4 million or $0.80 per share compared to adjusted net income of $18.6 million or $0.72 per share for the same quarter of 2022.

Our first quarter adjusted Underwriting income, which we believe is the best financial indicator for evaluating Palomar 2X, was $22.2 million compared to $21.2 million last year. Our adjusted combined ratio was 73.3% for the first quarter compared to 72.1% in the first quarter of 2022.

For the first quarter of 2022, our annualized adjusted return on equity was 20.7% compared to 19.2% for the same period last year. The first quarter adjusted return on equity performance instills further confidence in our strategy of sustaining top line growth with a predictable rate of return.

Gross written premiums for the first quarter were $250.1 million, an increase of 46.3% compared to the prior year's first quarter. Net earned premiums for the first quarter were $83.2 million, an increase of 9.5% compared to the prior year's first quarter.

For the first quarter of 2023, our ratio of net earned premiums as a percentage of gross earned premiums was 37% compared to 54.7% in the first quarter of 2022, and compared sequentially to 38.9% in the fourth quarter of 2022, reflecting the expected decrease from the overall growth of fronting and lines of business that use quota share reinsurance.

Losses and loss adjustment expenses for the first quarter were $20.7 million, including $1.8 million of Catastrophe losses from the previously disclosed California flood activity, slightly offset by favorable prior year development of Catastrophe. The loss ratio for the quarter was 24.8%, comprised of an attritional loss ratio of 22.6% and a Catastrophe loss ratio of 2.2%. Attritional losses for the quarter include unfavorable development from winter storm Elliott. While the development of Elliott this quarter would meet our definition of a catastrophe, we continue to include this event in our attritional loss results and stands consistent with other mini-catastrophe events in the past. As we have done historically, our guidance expectations include mini-catastrophes, but exclude large catastrophe event. We continue to expect an attritional loss ratio for the year of 22% to 24%.

Our acquisition expense as a percentage of gross earned premium for the first quarter of 11.4% compared to 20.2% in the first quarter last year and compared sequentially to 12.7% in the fourth quarter of 2022. Additional ceding commission from fronting fees continue to drive the improvement. The ratio of other underwriting expenses, including adjustments to gross earned premiums for the first quarter, was 6.8% compared to 9% in the first quarter last year and compared sequentially to 6.9% in the fourth quarter of 2022.

Our net investment income for the first quarter was $5.1 million, an increase of 98.5%, compared to the prior year's first quarter. The year-over-year increase was primarily due to higher average balance of investment held during the three months ended March 31st, 2023, due to cash generated from operations and a shift of invested assets from lower yielding investment assets into higher yielding investment assets with a similar credit quality. Our yield in the first quarter was 3.4% compared to 2.34% in the first quarter last year. The average yield on investments in the first quarter remains above 5%.

Our exposure to the bank failures in March was immaterial to our overall portfolio. We hold $2.2 million of Silicon Valley Bank senior debt of which we recorded an expected credit loss of $660,000 through our CECL reserve. Additionally, we note our commercial real estate exposure in our investment portfolio is minimal at less than 3% of the portfolio and does not include any direct loans. We continue to conservatively allocate our positions to asset classes that generate attractive risk-adjusted returns.

During the quarter, we repurchased 134,680 shares of our stock for a total of $6.8 million under our two-year $100 million share repurchase program. We have approximately $58.8 million remaining under the authorized program as of the end of the quarter.

As Mac mentioned, we are reiterating our adjusted net income guidance range of $86 million to $90 million. This range includes approximately $1.8 million of net Catastrophe losses incurred during the first quarter but does not include any additional Catastrophe losses for the year. On a gross earned premium basis, we expect our net earned premium ratio and acquisition expense ratio to continue to decrease in 2023 from the level reflected in the first quarter of 2023. Additionally, based on the current market, our effective tax rate for the year may remain elevated between 22% and 24%.

Before opening the call for questions, I would like to note that Jon Christianson, President of Palomar, will be joining the question-and-answer session of this call.

With that, I'd like to ask the operator open the line for questions. Operator?

Operator

Thank you. At this time, we'll be conducting a question-and-answer session.

Our first question is from Tracy Benguigui with Barclays.

Tracy Benguigui

Thank you. Just wanted to discuss the decision not to renew the aggregate reinsurance treaty. Am I thinking about this the right way? Essentially, you removed an ROE floor when you're thinking about guidance.

Mac Armstrong

Yes, it's a good question. We did opt to non-renew the aggregate. One of the utilities of the aggregate was essentially putting an ROE floor on the book, assuming that there was a multitude of frequent severe events.

I think it's important to go into a little more depth on what I brought up in my prepared remarks and that is really the lack of utility from the aggregate on the heels of all the underwriting changes that we've made and the significant reduction in the wind and earthquake PML.

Just to put a little more color around that, our wind PML has come down from $650 million to $100 million at the peak of wind season this year. The continental hurricane risk is going to be less than 5% of our total PML. Continental hurricane premium was 3.3% of the premium for the quarter.

Ultimately, if you look at 2020, only Hurricane Sally would have qualified for the aggregate as a potential for recovery. In 2021, Ida would have only caused a $3.4 million loss. So, there really is not a great use from that. We can explore alternative covers like potentially a third event that would potentially put a floor on the ROE after more than two or three retained losses that solves a similar function, or purpose rather, but the aggregate relative to the risk-adjusted returns and the cost, and frankly, the need, just didn't make sense. We can construct a floor with some other tool.

Tracy Benguigui

I recognize that you have a lot less exposure to wind, but would you be prepared to provide a range of potential ROE outcomes given you no longer have a floor?

Mac Armstrong

Yes, if you just run the as-if analysis for 2020, which was the worst wind season on record, our losses would have been, in totality, $10 million from the six or seven storms that we have retained losses. That would have changed what was a $60 million loss in total to $10 million, which would have put a ROE well into the 20% range. The floor was premised after three retained events. So, we can put some type of third-event protection that solves it, but that is going to be something that we'll ascertain after we complete the 6/1 renewal.

Tracy Benguigui

Then just sticking with reinsurance, all the iterative layers you've added on top of Earthquake, is that because your PMLs are rising given all your growth? Or that you didn't want to wait until the renewal season to do that?

Mac Armstrong

Yes. That's a good question as well. The incremental limit that we bought, the $180 million that we bought at 4/1, and some is incepting at 6/1, to accommodate the growth that we're seeing in the earthquake market currently and a little bit prospectively. Obviously, in the first quarter, total Earthquake grew 30%, Commercial 50%, residential 20%. We are being mindful of the growth and making sure that we have the requisite reinsurance to support it. And as the PML has grown, we want to make sure that we have protection that’s in line, if not above, the 250-year peak zone, which is California quake. And so, that's what we've bought to.

Tracy Benguigui

Okay. So, it sounds more prospective, right?

Mac Armstrong

No. It’s not a just-in-time. It's more of a staying ahead of it.

Operator

Our next question is from Matt Carletti with JMP. Please proceed with your question.

Matt Carletti

Mac, I just want to ask a couple of questions on the fronting business, particularly with one of your peers kind of publicly, a few months ago, had some issues with a mismatch on, it sounds like, some reinsurance language. Can you just paint us a little bit of a picture on both. Just whether it's today or kind of what you expect the book to look like for the year, in terms of mix of business; ag, cyber kind of the other major lines that you have there? Then maybe just a quick refresher on kind of how you guys go about it from that risk management side, whether it'd be experience, contract language, collateralization, that sort of stuff.

Mac Armstrong

Yes, Matt, thanks for the question. I think it's worth reiterating that our fronting strategy is one where we are looking to have concentrated, so to speak, with less than two handfuls of partners that are subject matter experts, whether they be rated insurance companies or unrated insurance companies, or MGAs or working on behalf of reinsurers.

It's a concentrated strategy that really allows us to manage effectively the risk profile, the reinsurance placement associated with it and then feel confident in the exposure and potentially how we participate. Right now, we're only participating on two of the programs, the workers' comp and the cyber, where we take a 5% co-par, and ultimately, I think that concentrated strategy allows us to avoid surprises.

The way we manage the programs is as if we are on risk and, again, we are in a couple of them. What we are doing is performing a range of audits, a compliance audit, an underwriting audit, a Sarbanes-Oxley audit, a claims audit, and then we're instrumentally involved in the placement of the reinsurance. All of these programs have a diverse reinsurance panel. The cyber program has over eight reinsurers on there. All of them pass the Security Committee requirements of the large brokers that help arrange that. Additionally, on the collateral side, it depends on the nature, but typically we are either collateralizing the unearned premium or a certain amount, but I'll let Chris explain that further.

Chris Uchida

Yes. Obviously, the collateral requirements depend on the counterparty risk involved. If we're dealing with a name brand reinsurer then we're not collecting collateral, but if we are dealing with a smaller captive-type reinsurer, then we offer evaluating their overall exposure. We have an internal model that evaluate the size, capital structure, history, licensing, authorization and then the type of collateral they want to use and then depending on where those factors fall out, then we will determine the amount of collateral to collect. As Mac indicated, usually we're collecting unearned premium and expected losses in the 100% to 150% range for those captive reinsurance parties.

Mac Armstrong

The only two other things that I would add are that we have in-house subject matter experts that are overseeing these arrangements, whether they be our property underwriters that are involved with the property programs or casualty leadership that is involved with the casualty or cyber programs. So, there's a good cross-organizational collaboration there.

Then to your point on where we're going to see growth, I think we feel good about all of them having embedded growth prospects, which means we don't have to lean in and find new partnerships. We can grow with the existing ones and grow with them meaningfully, especially as we're helping place their reinsurance because we can bring reinsurance relationships to bear that others don't because we are not only in a range of reinsurance book, but we buy a lot of it.

Matt Carletti
Then one follow-up, just on capital and leverage. I think, Mac, you commented on feeling like you have very conservatively capitalized now kind of below 1:1 on an earned premium capital basis. What does Goldilocks Capital look like? What sort of leverage should we think about it being where you're comfortable, so you continue to grow but maybe you're not buying back stock or not feeling like you have excess per se.

Mac Armstrong

Matt, the book is evolving, which is kind of fortunately is pushing up, I guess, the potential leverage some. We historically had said that a 1:1 target was what we are looking at, a net premium and a surplus ratio of 1:1. As the Casualty book has grown and longer-tail lines or less cat business, like in the marine and some of the excess property, that probably pushes that up to 1.2 to 1.3 range. And that's something that we do discuss with AM Best and when looking at our rating and our ratios. If I had to say where we are today, I would say it's probably yielded a 1.2 level.

Operator

Our next question is from David Motemaden with Evercore ISI.

David Motemaden

Good morning. Just had a question. It looks like the adverse development was $3.4 million. It sounded like, Chris, in that, there was some Elliott adverse from winter storm Elliott. Is that all the adverse, or was there anything else that was contributing to that?

Chris Uchida

Hi, Dave. That's good question. I did indicate, yes, most of the loss or all the prior period development for the quarter was really driven by Elliott, which was obviously a late-quarter event at the end of the year. Most of the increase was related on the Commercial side that did have some severity to it. That was a little unexpected. We did have one fault limit loss in there that kind of came in late. Nothing that I'd call too surprising It is something that we contemplate when we think about our attritional loss ratio pick for the year of 22% to 24%. Overall, for the quarter, everything was in line with that and felt very comfortable to us.

One other thing I would note on Elliott and the type of the loss is that this is for business that was re-underwritten last year. When you think about our loss ratio and I talked about the fact that I expect our loss ratio to start to improve, let's call it the end of this year, and definitely by this time next year, some of that—or a lot of that Elliott loss would not be there next year, so we feel very good about that and the trends. But overall, we feel the attritional loss ratio was right in line with our expectations.

Elliot, in our mind, is still a mini cat and that is something that we've talked about before. It's something we budget for, something we plan for and something that is definitely contemplated in our loss pick.

David Motemaden

Okay, great, thanks. Yes, that was helpful. It sounds like you guys have also made the underwriting adjustments on those specific policies that caused the loss. Were there any other adjustments that you made as a result of that little higher severity that you experienced?

Mac Armstrong

Just to put a little more specificity on Chris's point, the big pop, if you would like, from Elliott was from a discontinued line we exited post Ian. You just have policies that were in force, so that's why we have that heightened sense of confidence in that loss ratio ticking down. It's really the majority of the Elliott development was from a discontinued line.

David Motemaden

Got it. Okay, that's helpful. Then also sort of relatedly, it does look like the commercial all risk gross written premium continues to drop. Also, you gave some good detail on the loss, assuming a 2020-type event happens this year. I'm just curious, has your one in 10 Southeast Wind PML fallen even more than I think it was in the 15% to 17.5% range? Does that still hold, or has that come down even more?

Mac Armstrong

Dave, that's still holding, and that's kind of informing where we think retention will go to on the wind side, at 6/1. The Commercial all-risk book, I think though it has declined year-over-year, it's declined close to 25%, but the exposure has decreased more than 50, or close to 50. It shows that we're maintaining, a nice risk-adjusted increase and therefore also gives us the confidence to stay with $100 million PML book of business that's going to get a much better return than it did 12 and 24 months ago.

Operator

Our next question is from Paul Newsome with Piper Sandler.

Paul Newsome

Any additional color or thoughts on how the acquisition will work its way into the financial statements? And maybe some follow-up thoughts just on M&A and how you are thinking about Palomar may or may want to do?

Chris Uchida

Yes. Thanks, Paul. That was great question. Obviously, when we look at the acquisition, we did announce that because it's not a gigantic acquisition, it's something that's going to be productive for us and it's going to help our overall margins on that book of business and we're very happy with it, but I wouldn't expect a material change for 2023. I think there's going to be a little more upside when you get into 2024, but there's going to be a slight margin improvement on that book of business for 2023. But I would say, and you're going to be looking in the $0.5 million range for the year and then some expansion in that next year, especially with the growth we're going to be pushing and looking at for that line.

Mac Armstrong

I think that the strategic rationale of the acquisition, and like Chris said, it's pretty small. Not immaterial, but what it does afford us is a chance to go deeper in a segment where we already were participating and that is in the E&O space, and bring on incremental subject matter expertise, particularly in the real estate E&O section. We now have a group of underwriters that specialize in a targeted line of business that we can grow going beyond the Western U.S., but not changing the risk profile. It just gives us the ability to really extend franchise in Casualty.

On M&A, Paul, I think, simply put we do really fancy ourselves as an organic growth strategy or organic growth story. We have grown this business almost entirely organically, save for a book of business purchase and this deal. That's going to continue to be our plan. That's not to say we won't opportunistically look at things, but we're not going to become a roll-up. We are going to be an organic growth story with several identifiable growth vectors in front of us.

Operator

Our next question is from Mark Hughes with Truist Securities.

Mark Hughes

Thank you. Mac, you mentioned a couple of programs we have co-participation on the fronting business. What proportion of the total fronting premium do you have that potential exposure?

Mac Armstrong

Mark, the two that we take, one 4% and one 5% risk on, the 4% is on the workers' compensation and the 5% is on the cyber program. Those two constitute approximately half of the premium, maybe a little bit more than that, probably 60%. Those are two of our larger programs.

Mark Hughes

The Earthquake authority, I don't know if you touched on this earlier in the call, but have you noticed anything different in their behavior in terms of competition, new business, marketing, that sort of thing?

Mac Armstrong

What I would say broadly on Earthquake is there is a limited competition in that market right now, whether that be because of the changes to the CEA—and I'm going to let Jon Christianson, our President, speak to that—but then also in the Commercial side, capacity pullbacks. So, that's why we are very confident in our ability to grow that line. We are very pleased to buy the incremental limit to support our growth, not just where we arrived at today but prospectively. But I'll let Jon offer his thoughts on EA and the earthquake market.

Jon Christianson

Yes, thanks, Mac. Good to speak with you, Mark. This is Jon Christianson. So, the CEA has publicly disclosed over the last few months that it has reduced its total reinsurance limit by approximately $1.4 billion since December. That's done a couple of things in the market. One, Palomar has been the beneficiary of freed up supply of earthquake reinsurance capacity, but it's also prompted a rating downgrade by AM Best during the first quarter, which for some producers is a level below what their security committees require. They're looking for stronger options and Palomar fits into that category of stronger options as a rated participant in the earthquake market. That's allowing us, as Mac talked about earlier, to both grow and optimize our book, being able to seek out that business that fits our model well and that we feel like we're getting good risk-adjusted returns on.

That said, CEA still plays an important role in the California earthquake market but based on the recent decisions made by the CEA and what they've made and what they continue to preview, really provides Palomar with greater market opportunities.

Mark Hughes

Understood. Then, the Inland Marine, you're getting good growth there. Is that economically sensitive? Are you noticing any changes around the margin in terms of either maybe audit premium or opportunities for new business?

Mac Armstrong

Yes, we are pleased with the growth in Inland Marine. It was 70% year-over-year. By definition, it's a builders risk heavy book. There is some exposure to macroeconomic changes or cyclicality. But we tend to be very heavy in multifamily and kind of mid-sized commercial projects and then writing a handful of large commercial projects, and there has not been a slowdown in construction and opportunity. Some of that's a function of where we are writing. We write in Texas, we write in the Carolinas, we write in California, where there is a need for housing product or ample activity and just overall commercial construction or mid-sized commercial construction. So, we do watch it, but right now, we're not seeing any slowdown there.

Operator

Our next question is from Andrew Anderson with Jefferies.

Andrew Anderson

Good morning. Was hoping you could educate me a bit on the zero attritional business. Is that booked at like a mid single-digit loss ratio? I'm just thinking, given the rate improvement here and perhaps the shift to E&S, has that changed year-over-year those initial picks for that?

Chris Uchida

Hey Andrew, great question. Yes. When we think about, let's call it, our binary book or zero attritional book, that's really for us, Earthquake and Hawaii, and because those are relatively easy to define events, generally speaking we're booking that as 0% loss ratio. If there was something that happened in the quarter that was maybe smaller or larger, we'd probably put a pick around that, but at this stage, because these are pretty well-defined events, we usually are booking that at a zero. That is especially true for Hawaii where even to trigger coverage, you have to have a named hurricane watch or warning for the islands or for the counties in Hawaii, before any coverage is even triggered, so, we are not generally going to be booking any type loss pick for either of those lines of business.

Andrew Anderson

Got it. That's helpful. And maybe on Hawaii, it seems to be slowing down a bit quarter over quarter. Can we kind of just talk about the opportunity there? Is it just looking for rate and not growing exposures?

Mac Armstrong

That's exactly what we're doing there, Andrew. We are just looking to grow through rate and inflation guard. We're satisfied with where we are from a market share perspective and from a risk perspective. That line has kind of reached steady state, and as we think through the June 1 renewal, cost of reinsurance for wind exposure is higher than that for earthquake, so we want to be mindful of making sure we preserve our economics as best we can in a state like Hawaii where the cost of risk transfer is not quite as elegant as it is in Earthquake.

Operator

Our next question is from Jing Li with KBW.

Jing Li

Hi, thank you for taking my questions. Just a question on fronting. Can you add some color on how the demand for fronted premium has evolved? Do these trends imply any changes to how much Palomar gets paid for the fronted premium?

Mac Armstrong

Thanks for the question. What I would say is, we continue to see sound growth with our fronting partners. As I mentioned earlier, we have a very concentrated and healthy relationship with these fronting partners that have nice, embedded growth in them, whether it's because they have books of business that are rolling over this year or we've help them find more reinsurance capacity to drive growth due to market demand and the performance of the book of business.

As it relates to our economics, we have been able to maintain our economics and the fronting fees have not come under pressure, nor will we allow them to. We, in some cases, are putting our balance sheet at risk from a tail perspective, if it's a property line, or beyond whatever renegotiated loss cat could be for a casualty line. Our economics are sacrosanct and we're going to hold them, and we have not seen any pressure on them.

Jing Li

Got it, thanks. One more question if I can. I know Palomar has established a strong relationship with other carriers to distribute residential earthquake policies. What are the opportunities affiliated versus these carriers for other lines?

Mac Armstrong

Yes, that's a very good question. We have established ourselves as the earthquake specialists in a state like California, or any state, frankly, where there's earthquake exposure. It's been a nice channel for growth for us. I think we have over 20, maybe 22 partnerships, and there are others that are coming online.

We have been able to, in certain areas like Hawaii, we've extended the partnerships for both Earthquake and Hawaiian Hurricane. We've exported that also to Flood. It's really going to be more of the residential side of the book that's going to potentially have the ability to cross-sell, and it's something that our team does look at. But for the most part, it's been an earthquake strategy that we are trying to export in Hawaii and Flood.

Operator

Our next question is from Pablo Singzon with JP Morgan.

Pablo Singzon

Hi, thank you. The first question I had is, if you look at net written premium growth, it was negative this quarter and that's down from, I think, 56% growth in '21, 14% growth in '22. I think some of that is from lines running off and also reinsurance quota shares increasing. The question is, given that backdrop, how do you see that being growth development from here? And I guess sort of the same question for growth ex-fronting, where you're seeing slower growth as well.

Chris Uchida

I'll start off on the net written and the net earned. Obviously, there has been a change in our overall mix of our book of business, primarily driven by fronting, so that hasn't had an impact on it. When you think about it and look at it, the overall growth, look at it excluding fronting and excluding the homeowners book that we have the primary portion of that, Texas has been moved into a front, and then the other portion we are currently running off. The growth without those is worth about 27% for the quarter, so still very strong overall growth in the written premium. Ceded premium has also gone up, primarily driven by fronting. But overall, we feel very good about where it's going and what happened.

When you look at it from a quarter-over-quarter comparison, this is the first quarter that the specialty homeowners book has been moved over to a front when you're comparing the quarters. Then you also look at it, we have one deal that we were able to cut off at the beginning of the year, so there was an unwinding of that premium, so that does impact a little bit of the growth, but it's just something that we think about it and we're moving on from that standpoint.

Overall, we're very happy with the way the book looks. I think everything is moving as we would expect it, especially on the net earned premium ratio standpoint for the quarter of about 37%, down from Q4 of last year from 38.9% and kind of trending towards the mid 30s, kind of what we projected with our guidance.

Overall, no concerns, but there has been a mix shift in our business in fronting and also lines of business-like Inland Marine, Casualty that use a heavy amount of quota share reinsurance to help to drive fee income have grown and are now a larger part of our portfolio.

Mac Armstrong

Just to expand upon Chris's point, the areas that we are investing heavily is from a people perspective, from a reinsurance perspective, from a systems and infrastructure perspective, are growing rapidly. Earthquake, our largest line, grew 30%. Inland Marine grew 70%. The Casualty grew 140%. All-risk, we are pruning that back relative to the exposures, bringing the PML down to $100 million. We mentioned earlier on the call, Hawaii. We like where we are from an exposure standpoint, so we're only going to grow through rate or inflation guards. Then we have the fronting side.

The mix is really changing in respect to the book and the relative participations that we have, but the top line is there, which, frankly, gives us the ability to, over time, increase our participation and retain more.

On the whole, we're very pleased the complexion of the book and the embedded growth in the core franchise.

Pablo Singzon

Okay. Then second question, maybe for you, Mac. From a new business standpoint, can you talk about the receptivity of brokers and clients through retail E&S earthquake coverage where terms and conditions may be less generous from a client standpoint?

Then as a follow-up to that, as you think about that in-force retail earthquake book, is the intent to migrate most of that to E&S? If yes, what are sort of the puts and takes in achieving that outcome?

Mac Armstrong

Sure. So I think, as it relates to the E&S and our ability to use that in residential quake, roughly 30%, 27% of our new business in the first quarter for residential quake was E&S and there has not been push back from markets there. The way we have used it has been, from a TIB standpoint, so an eligibility criterion based on the size of the limit procured, we've used it for specific producers, whether they tend to concentrate more on high value, and then we've also used it geographically specifically.

There has not been push back there. It does afford us the ability to get enhanced terms and conditions and in rate as well. It's something that we are going to continue to use based on the cost of reinsurance, based on aggregations in certain zones, and based on concentration of, a high-net-worth channel. It's a great tool that we're using, and I don't see that relenting anytime soon.

Operator

We have reached the end of the question-and-answer session. I would now like to turn the call back over to Mac Armstrong for closing comments.

Mac Armstrong

Great. Thank you very much, Operator, and thank you to all who joined us this morning. We appreciate, first and foremost, your participation, as well as your questions and most of all your continued support.

I'd like to also express my sincere appreciation to our dedicated employees for their hard work, which is evident in the strong results of the quarter.

This is an exciting time for Palomar, as we continue to build out our specialty franchise and build it into, extend it into attractive areas of the market where we can earn strong risk-adjusted returns. We remain optimistic around all of our prospects and initiatives, whether it be the casualty business, maintaining our earthquake leadership, or placing our reinsurance program and ultimately delivering the full-year guidance for 2023 and beyond.

We look forward to speaking with your next quarter and thank you very much for your time today.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.