First Quarter 2024 Earnings Call Transcript

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PRESENTATION

Operator

Good morning and welcome to the Palomar Holdings First Quarter 2024 Earnings Conference Call.

During today's presentation all parties will be in a listen-only mode. Following the presentation, the conference line will be open for questions with instructions to follow.

As a reminder, this conference call is being recorded.

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

Christopher Uchida

Thank you, Operator, and good morning, everyone.

We appreciate your participation in our earnings call. With me here today is Mac Armstrong, our Chairman and Chief Executive Officer. Additionally, Jon Christianson, our President, is here to answer questions during the Q&A portion of the call. 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 10, 2024.

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 their 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.

During the first quarter, Palomar celebrated its tenth birthday, and this quarter is a terrific illustration of how much we've accomplished in our young history. We produced another quarter of profitable growth and again demonstrated our ability to grow where we want, while delivering predictable earnings.

Five product categories generated gross written premium growth of 47.2%, with especially strong contributions from our Crop and Casualty products. Likewise, we delivered net earned premium growth of 30% in the first quarter, a nice increase from the 14% growth we achieved in the fourth quarter of 2023. Crop, Casualty and certain Other Property lines, combined with our market-leading Earthquake franchise, drove adjusted net income growth of 36% and an adjusted return on equity of 22.9%.

Another exciting result of our financial performance this quarter is our stockholders' equity surpassed $500 million, moving us into AM Best Financial Size Category 10. This level should help us open new market segments, distribution channels and attract talent.

The year is off to a strong start, and we are on track to achieve the Palomar 2X goal of doubling our adjusted net income over a three to five-year period. This goal was first introduced at our Investor Day in June 2022, which means we are tracking towards the shorter end of the time frame objective. We remain steadfast in our commitment to maintain profitable growth with best-in-class risk-adjusted returns. First quarter puts us well on our way to attaining this objective in 2024 and beyond.

Before I dive into our results, I'd like to point out that this quarter and going forward, we will provide performance commentary, including but not limited to gross written premium and market conditions on our five product categories: Earthquake, Inland Marine and Other Property, Casualty, Fronting, and Crop. We believe this will help our investors better understand how our portfolio of businesses are performing as we move forward.

Starting with our Earthquake franchise, we grew premium 13% in the first quarter of 2024. It is important to point out that the first quarter of 2023 benefited from a non-recurring premium transfer that came over in conjunction with the strategic carrier partnership. Excluding this one-time benefit, our Earthquake book grew 18% on a same-store basis. We are confident that Earthquake premiums will grow in the high-teens to 20% in 2024.

Our confidence stems from several factors, most notably a residential earthquake partnership with Cincinnati Financial, consummated in the fourth quarter of 2023 that did not go live until April, as well as new partnerships, one residential and one commercial, that should increase production in the second half of the year.

The Earthquake market remains stable and attractive from a pricing perspective. Commercial rates increased 11.6% this quarter as compared to 18.9% in the fourth quarter. The 8% to 9% inflation guards of residential earthquake policies are now providing the cushion above inflationary levels and provide annual increases regardless of market condition.

While rate increases have moderated from 2023 levels, our key portfolio metrics, average annual loss and 250-year probable maximum loss to premium ratio, are at all-time best levels. This should translate into strong net earned premium growth as the cost of excess of loss reinsurance moderates from previous levels over the near term. Looking forward, we remain positive on the growth and profitability prospects of our Earthquake franchise.

Our Inland Marine and Other Property products business grew 46% year-over-year, driven by our excess national property, Hawaii Hurricane and Builders Risk line of business. While growth in this product set has accelerated from the pace that we saw in recent quarters, I wanted to reiterate, this is a category that best typifies our grow where we want mantra and where we are judiciously managing, and in certain cases, reducing our exposure. Specifically, we are not adding limit in continental hurricane-prone areas and reducing our balance sheet exposure in Hawaii as we transition our policies to our Laulima Reciprocal Exchange.

Builders Risk, our largest in the Marine product, had 16% same-store growth in the quarter. Our excess national property line saw approximately 178% year-over-year growth and 6% rate increases in the quarter as our teams built a portfolio of non-CAT-exposed property business. For both Builders Risk and excess national property, we hired experienced regionally focused underwriters that we believe will sustain the growth in these lines of business for 2024.

All Risk business grew 21%, while increasing rates 18%, down from 36% in the prior quarter. Flood written premium grew 18% year-over-year in the first quarter. The growth was somewhat muted by new business moratoriums throughout the quarter in California due to the heightened rain and flood activity. Importantly, catastrophe losses associated with the major floods in California in January were in line with the estimate provided on last quarter’s call.

Hawaii Hurricane premiums grew 30% in the first quarter, a combination of rate increases, our inflation guard and new business written on Laulima paper. Importantly, our policyholders are embracing Laulima with approximately 92% of policies converting from Palomar Specialty Insurance Company in the quarter. It is worth reiterating that the migration of policies to Laulima transitions our business model from one that is risk bearing to one that is fee generative. Once complete, we will all but eliminate balance sheet exposure to hurricane losses in Hawaii.

Our Casualty product set saw robust growth in the first quarter as premiums increased 327% over the previous year. Strong performing lines in the quarter were commercial contractors, general and excess liability, real estate errors and omissions, and miscellaneous professional liability.

Excess liability particularly stood out as the investments made in talent and distribution over the course of 2023 allowed the book to grow fivefold year-over-year and 65% sequentially. Our contractor’s general liability book had close to an identical sequential growth rate of 64%, while growing 375% year-over-year. Our professional liability line grew premiums 81% year-over-year, while seeing a 28% sequential increase.

Our strong growth in Casualty products, which still comprise less than 15% of our total book, remains anchored in a conservative approach to our underwriting targeted niche segments of the market. We employ prudent risk management tactics such as modest gross and net line size, avoidance of heavy bodily injury and other high severity exposure, and conservative reinsurance to cover loss potential in the classes we write. Additionally, we continue to see decent rate increases across the Casualty book.

Our professional liability products saw a blended increase of 6.5% with real estate errors and omissions rates increasing 10.6%. The excess liability book was up 6.7% and the contractor's general liability book saw an increase of 9.9%. While there are certain pockets of our Casualty book that are softer from a pricing perspective, private company D&O was up 2.4%. We continue to believe our rates are staying ahead of loss costs.

For the quarter, the Casualty book's loss ratio remained in line with our conservative loss picks. As the predominance of the book is less than two years old, we are focused on building a sizable reserve base that we believe will develop favorably over time.

Our Fronting business modestly grew premiums 3% year-over-year in the first quarter. Growth in the quarter was impacted by a few things. First, our cyber fronting program continued to see heightened competition and soft pricing as its average renewal decreased 6.7%. Second, two new partnerships were slower to ramp than initially forecast. Lastly, while our pipeline is strong, we did not add any new clients this quarter.

As a reminder, we take a very selective approach securing our Fronting partner portfolio to ensure comprehensive management of the programs and no surprises. We do expect to bring on new Fronting relationships in the second half of the year, but this product set will experience slower growth in 2024 than the others.

Conversely, our newest product group, Crop, had a very strong start to 2024, writing $38.7 million of premium in the first quarter. Our success in market acceptance are a function of our expertise and our strong partnership with Advanced AgProtection. We successfully married Palomar's data-driven risk management and underwriting model with Advanced AgProtection's longstanding market relationships, technology and customer service, to assemble an attractive and geographically diverse book this quarter.

As a reminder, for 2024, our Crop business has a participatory front, where we are taking 5% risk. The expectation is that we will take a more meaningful risk participation in 2025. Production exceeded our expectations, and we are now forecasting more than $125 million of premium in 2024, up from the previous guidance of more than $100 million. Also, Crop written premium is seasonal, so you should not expect much in the way of written premium next quarter. We are pleased with the traction to date and are confident that we will generate meaningful net earned premium in the years ahead.

Turning to reinsurance, the first quarter is lighter in activity. That said, we were still engaged on several placements, including our June 1 core excess of loss placement and two quota sharing treaties, Casualty and Builders Risk. We are pleased that the ceding commission on the Casualty quota share renewed at slightly better terms than expiring, and we enhanced the treaty's terms and conditions. We also improved the economics on our Builders Risk quota share, while increasing our gross and net line capacity.

We are amid the 6/1 core XOL placement, as well as marketing Torrey Pines Re, our fifth catastrophe bond. We are encouraged by the progress to date on both key endeavors. As we discussed last quarter, we had two earthquake treaties renewed on January 1 at risk-adjusted decreases of approximately 5%.

As we sit here today, certain layers of our core tower are bound, and the implied risk-adjusted decrease is directionally similar to the earthquake treaties renewed on January 1. While most of the placement is still outstanding, we are encouraged with the results so far. It affords us confidence that we will meet or beat the 5% price increase embedded in our full year 2024 guidance.

To conclude, we are encouraged by the trends in our business and are raising the guidance range for our full year 2024 adjusted net income to $113 million to $118 million from $110 million to $115 million. To reiterate, our guidance does assume a 5% risk-adjusted increase on our 6/1 core excess of loss program. Lastly, the midpoint of our guidance implies an adjusted ROE above our Palomar 2X target of 20%.

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

Christopher 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 when we incur a net loss.

For the first quarter of 2024, our adjusted net income was $27.8 million or $1.09 per share compared to adjusted net income of $20.4 million or $0.80 per share for the same quarter of 2023. Adjusted net income and earnings per share growth of 36%. Our first quarter adjusted underwriting income was $29.2 million compared to $22.2 million last year. Our adjusted combined ratio was 73% for the first quarter compared to 73.3% in the first quarter of 2023. Excluding catastrophes, our adjusted combined ratio was 69.8% for the quarter compared to 71.2% last year.

For the first quarter of 2024, our annualized adjusted return on equity was 22.9% compared to 20.7% for the same period last year. The first quarter adjusted return on equity continues to validate our ability to maintain top line growth with a predictable rate of return above our Palomar 2X target of 20%.

Gross written premiums for the first quarter were $368.1 million, an increase of 47.2% compared to the prior year's first quarter. Along with breaking out Crop, we also regrouped our written premium to align with our five key specialty insurance products: Earthquake, Inland Marine and Other Property, Casualty, Fronting and Crop.

It is important to remember the seasonality of our Crop premium. Based on our current expectations, the majority of our Crop premium will be written in the third quarter of each year, with only modest premium in the second and fourth quarters. The $38.7 million of crop premium written in the first quarter should represent about 30% of the premium expected for the year.

Net earned premiums for the first quarter were $107.9 million, an increase of 29.6% compared to the prior year's first quarter. For the first quarter of 2024, our ratio of net earned premiums as a percentage of gross earned premiums was 35.6% compared to 37% in the first quarter of 2023 and compared sequentially to 33.9% in the fourth quarter of 2023. The year-over-year decrease is reflective of our growth in Fronting and lines of business that use quota share reinsurance and the increased cost of our excess of loss reinsurance program that renewed last June.

With the mix of business maturing and our excess of loss reinsurance program in place, our net earned premium ratio has continued to increase from its low point in the third quarter of 2023. Based on our assumption that the excess of loss reinsurance costs will increase modestly, on a risk-adjusted basis, we expect our net earned premiums ratio to follow a similar pattern as last year.

We expect a slight decrease in the net earned premium ratio for the second quarter with the low point of this ratio in the third quarter, the first full quarter of our June 1 reinsurance renewal. From there, we expect the ratio to increase through the treaty year, similar pattern to what we have seen over the current treaty year.

Losses and loss adjustment expenses for the first quarter were $26.8 million, comprised of $23.4 million of non-catastrophe attritional losses and $3.4 million of catastrophe losses from flood activity. The loss ratio for the quarter was 24.9% compared to a loss ratio of 24.8% a year ago. For the first quarter, our attritional loss ratio was 21.8% and our catastrophe loss ratio was 3.1%. We continue to expect our loss ratio to be approximately 21% to 25% for the year.

Our acquisition expense, as a percentage of gross earned premium, for the first quarter was 10.5% compared to 11.4% in the first quarter last year and in line with the fourth quarter of 2023. Additional ceding commission and fronting fees continued to drive the year-over-year improvement. With our growth and mix of business, we expect this ratio to be flat for the full year with some potential for improvement.

The ratio of other underwriting expenses including adjustments to gross earned premiums for the first quarter was 6.8%, the same as the first quarter last year and compared sequentially to 6.9% in the fourth quarter of 2023, in line with our expectations as we continue to invest in our organization as we continue to grow. We continue to expect long-term scale in this ratio, while we may see periods of sequential flatness as we continue to invest in scaling the organization.

Our investment income for the first quarter was $7.1 million, an increase of 39.4% compared to the prior year’s first quarter. The year-over-year increase was primarily due to higher yields on invested assets and higher average balance of investments held during the three months ended March 31, 2024, due to cash generated from operations. Our yield in the first quarter was 4.2% compared to 3.4% in the first quarter last year. The average yield of investments made in the first quarter was 5.6% compared—we continue to conservatively allocate our positions to assets that generate attractive risk-adjusted return.

There were no shares repurchased during the quarter. While the previous plan has expired, as a matter of good corporate governance, we will be authorizing a new share repurchase program.

At the end of the quarter, our net written premium to equity ratio was 0.94 to 1. Our stockholders’ equity has reached $501.7 million, a testament to our profitable growth.

As Mac mentioned, we are raising our full year 2024 adjusted net income guidance range to $113 million to $118 million, implying 23.5% adjusted net income growth at the midpoint of the range. It’s important to remember that our loss estimate, and guidance include our expectations of mini cat such as severe convective storm activity. For the year, we expect our loss ratio to be approximately 21% to 25%, including our estimate of mini cats, which represent approximately two points to three points of our expected loss ratio.

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

Operator

Thank you.

We will now be conducting a question and answer session.

Our first question is from Paul Newsome with Piper Sandler. Please proceed with your question.

Paul Newsome

Good morning, congrats on the quarter. Is it fair to say as we look out past '24 that the attritional loss ratios should continue to rise? I think that was the answer in the past, but I just wanted to confirm that was still the case.

Christopher Uchida

Hi, Paul, thanks for the comments. Yes. We still expect the attritional loss ratio to continue to tick up throughout 2024 and then obviously into 2025 as well, as the overall mix of business does change, and we continue to grow in lines like Property, Inland Marine and Special Property, Casualty, and also Crop. Those lines will have attritional losses associated with them. We expect that to tick up moderately. Again, we don't expect that to go from, let's call it, 21% this quarter to 40% next quarter. This is going to just go up moderately, maybe a point or two a quarter.

Mac Armstrong

I would agree. The only thing that I would add is, like Chris said, it won't swing wildly because of our use of quota share in our balanced risk participation in the lines that he referenced. Then, our Earthquake business, we still feel like it's going to grow 18% to 20% this year. It's not going to meaningfully under-index the growth, and that provides a nice anchor with its attritional loss ratio of 0%.

Paul Newsome

Great. Could you maybe, big picture, give us your most recent thoughts on the competitive environment for specialty commercial and E&S? There's lots of talk in the last several weeks because of the mixed data that came out from on E&S. I know that's a very simple way to look at growth in E&S, but your most recent thought of what you think you're seeing out there from a competitive perspective would be great.

Mac Armstrong

I would say the term that I would use broadly to describe the market right now, and this was a year ago, I probably would have leaned more on the property side. But now, I would say it's broad-based and that there's rate integrity in the market. I would say that there is discipline in pricing. You're still seeing rate increases in Property that may not be at the same level that you were seeing a year ago when it was more severely dislocated. Then, in Casualty, as I highlighted, we did see consistent rate increases, really with the exception of cyber and the private company D&O component of our MPL, that was up and in excess of loss costs. I would say that there is rate integrity in the market and there is stability there.

The other thing, as it pertains to the E&S side, what we are writing within our E&S company is traditional E&S business, and we are not seeing flows out into the admitted side. I think what I would say or specifically point out is, for Earthquake, for instance, our residential book has always been admitted business. But commercial earthquake, since before Palomar's formation, has always been an E&S product. Even if you can write it on an admitted basis, you do it with the filing that basically mirrors the E&S market from a coverage flexibility and a rating flexibility. As it pertains to our book, we are not seeing flows out of E&S into the admitted market. I think we're seeing rate integrity.

Paul Newsome

Maybe a little bit trivial, but any impact you see from that little earthquake we had on the East Coast and either from a product interest perspective or anything else that you might point out? I just got the question this morning.

Mac Armstrong

We jokingly call those marketing events. There's actually an earthquake in the Inland Empire, California, densely populated part of the state, about 4.3 magnitude, enough to be on the cover of the newspapers and the evening news and enough for people to feel it. We like those because it drives awareness, and it does lead to a little bit of a tick-up in new business sales. An earthquake in New York, we don't write a lot in New York, but that does garner some media attention, so that's not a bad thing.

Operator

Our next question is from Mark Hughes with Truist Securities. Please procced with your question.

Mark Hughes

Thank you, good morning. The net earned premium ratio do you think it'll bottom out? I think last year's third quarter was 33%. Would one anticipate that or maybe a little bit better this year, maybe 34%?

Christopher Uchida

Hi Mark, that's a great question. I think as we indicated in the prepared remarks, we are still expecting an increase in our reinsurance costs as we go into the 6/1 renewal. I think there are some favorable winds out there. But right now, in our guidance and our expectations, we are still expecting a slight increase there. With that type of mechanic and you kind of know the stair step that you see with our excess of loss and how that plays out through the net earned premium, I would expect that, let's call it Q2 net earned premium ratio might go down a little bit from where it was in Q1. But then, as you pointed out, Q3 should still be the low point of our net earned premium ratio based on our current assumptions. I think last year, it was low-30s. I would expect a similar trend to play out in Q3 of this year as well.

But similarly, over the next treaty year, I would expect very similar pattern to what you saw in our net earned premium ratio this year, really mostly dependent on what that renewal looks like. But in our model, we have a slight increase. I would expect slightly lower net earned premium ratio compared to last year, but very close to what you saw over the last three years.

Mark Hughes

Okay. Then, when we think about 2025, should that be migrating up a little bit, kind of offsetting some of the higher losses?

Mac Armstrong

I would say, some of that's going to be driven, frankly, by Crop. Crop right now is really more of a participatory front, as we described, with a 5% risk participation. Going forward in 2025, we will take it more meaningful. That would help drive it up. If reinsurance pricing starts to decelerate or decline, that would be a driver of it. You should expect decent net earned premium growth this year and that ratio potentially to tick up in ‘25 because our risk participation in lines like Crop and maybe a selective group of Casualty business that is beginning to mature and season more, that will help inform that as well.

Mark Hughes

When you say it’s going to step up 5%, what’s the trajectory on that? If all goes as planned, what’s the next step?

Mac Armstrong

I’m sorry, the 5% for Crop? Is that what you’re asking?

Mark Hughes

Yes.

Mac Armstrong

I would say 15% to 20% type participation. We’re bullish on the prospects for that line and think we can build a very meaningful franchise there. For what it’s worth, it was a very modest amount of premium that we wrote in 2023, but it was a very profitable book.

Mark Hughes

The commercial quake, how much is that tied to just broader commercial property supply and demand, or capacity and demand? Is there a separate dynamic within commercial quake? Or does that tend to parallel the broader market?

Mac Armstrong

I think Earthquake is a unique line. For commercial earthquake, especially layered and shared business, you need to have that coverage to satisfy a large commercial loan. I think you’re writing in areas where people are very mindful of protecting assets that have considerable equity value. I don’t think it mirrors the broader property market, especially because it is the tried and true layered and shared market, where you have multiple participants on a singular risk.

If you have a $500 million property schedule, you’re not going to have one quake insurer. You’re going to have 10 to 15. Because of that nature, I think it’s pretty nuanced, and it does follow the cost of reinsurance to some degree and reinsurance pricing in the primary market, but not in the sense of coverage and participants.

Operator

Our next question is from Peter Knudsen with Evercore ISI. Please proceed with your question.

Peter Knudsen

My first question is on midyear renewals. I believe you mentioned an increased expectation of costs in the prepared remarks. I’m just wondering if you could expand a bit on those updated views and how that’s shaping up?

Mac Armstrong

What I would say is, again, our guidance for the year, and what we just affirmed assumes a, call it, 5% increase in the cost of reinsurance. We are in the midst of our placement right now, and we are encouraged by the prospects of, as I said, beating that number.

We did renew two small treaties at January 1 that were down plus or minus 5%. We have bound some coverage in early April that incepts at 6/1 but is bound and covered, and that is plus or minus down 5%. That constitutes roughly 10% to 15% of the total tower. There's a lot more to do. We want to be conservative in what we are assuming. But all indications, including with what we are hearing in the initial price-up that we put out in the market on our cat bond give us confidence that we will certainly achieve that level, if not exceed it.

Peter Knudsen

My second question is around the strong acceleration in the Casualty growth. I know you mentioned a little bit of the lines and the rate that was driving that. But I'm hoping you could talk a little bit more about the current market in some of those lines and how you guys are feeling about rate and loss trend in that space. Then, also, if you're expecting that same strong growth to continue.

Mac Armstrong

We do expect to see good growth from Casualty throughout the year. We've made considerable investments in Casualty from, most importantly, a talent and leadership perspective. People like Ty Robben, Brian Pushic and Gerrit VandeKemp have come across with great pedigrees and great followings and great experience in the market. We are investing in them from a system standpoint, from a balance sheet standpoint, from incremental underwriting resources, and want to build a meaningful franchise in these niche market segments.

What I would say right now, though, is we are going into the market, and we are doing so in a meaningful fashion but also a conservative fashion, conservative from a risk selection standpoint. Whether we are avoiding severity exposed classes on the general liability side or the professional liability side, it limits management.

Whether our max gross line is $5 million, net is $2 million. When you think about nuclear verdicts that are in the $100 million range like that, a $5 million gross line doesn't materially swing our balance sheet or our earnings base for that matter. Then, we have a lot of different underwriting controls. Again, that's informed by the strong leadership that we have in place. Where we sit right now, we feel that we are getting adequate rate to cover our loss costs. Our general casualty book was up 9.9%.

We think that's against loss cost that's probably 4% to 5%. Excess liability was up 6.7%. I think it's a similar type of loss cost. It's not to say, again, as I mentioned earlier, that all lines in Casualty are getting the same level of rate or have that term rate integrity. Financial lines are tough, and we do not write a lot of that, but we do write some private company D&O inside of our miscellaneous professional liability suite, and that's not getting the rate that we'd like. We have to be mindful of how much exposure we have there.

I think the last thing that I would say is, when you look at our loss picks, we think they're conservative. They were just vetted by our reinsurance panel at 4/1 with the renewal, and we got improved terms and conditions and improved pricing there. I think that's a validation. I think the greatest validation is our loss pick is meaningfully above the historical results of these underwriters that we brought on. I know that's a lot, but what I would say is, we do feel good about our Casualty strategy, the niche focus. Feel exceptional about the leadership we have helping us execute upon that, and we don't think that we will be releasing reserves anytime soon. We're going to be conservatively building the reserve base.

Operator

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

Matthew Carletti

Mac, I was hoping to ask a high-level question on your residential quake book, particularly things like California and other areas where the homeowners' market has gotten super tight, and rates have gone up a bunch. What have you seen in terms of retention in that resi quake book as that happened? My thought process has been like people are paying a ton more for homeowners. How sticky? Have you seen retentions change at all? Or are they feeling the wallet get a little tight and maybe retentions are sliding a little bit?

Mac Armstrong

Yes, Matt, that's a great question. I'm pleased to say that our retention has been consistent. It's always been in a mid-to-high 80s level. We have been able to continue to grow the quake book by taking share, by having great partnerships. But I would say that new home sales right now and increasing homeowners' premiums is a headwind. It's no question that it is. But because of our franchise, because of our partnership strategy, and also because of the changes at the California Earthquake Authority, we've been able to sustain this high-teens, mid-teens growth in residential quake.

We're optimistic, and we've been studying it. As rates come down and new home sales in more earthquake-exposed areas pick up again and the inventory starts turning over a bit more, that could be turned from a headwind into a tailwind. I'm just not going to call win. There are a lot of people that are focused on when rate changes are going to happen. We're going to just play with the current market as it is and hope that when rate changes come, it provides a nice tailwind for us.

Operator

Thank you. Our next question is from Andrew Andersen with Jefferies. Please procced with your question.

Andrew Andersen

On Fronting, a little bit lower growth in the quarter. You mentioned some partnerships were slower to ramp. I think you had previously pointed to, for full year perhaps, growth in Fronting index and growth of overall Company. Is that still the case?

Mac Armstrong

I think it's not the case. I think it's going to under-index the growth. The good thing is, we have a portfolio of products in five different categories. Some are firing on all cylinders. Some are indexing the growth rate. I would say Fronting is the one that is now under-indexing. A few of our new partnerships are slower to ramp. There is a little bit of rate headwinds in one of our larger relationships that I brought up. We have a pipeline, and we do expect to add to our portfolio of Fronting partnerships, but it's going to slow. Its growth is going to look more like the first quarter than it will the broader growth rate of the Company.

Andrew Andersen

Then, on Earthquake, it sounds like high-teens, 20%-ish for full year. If I think about the expense ratio here, does the mix of product between residential and commercial have an impact on the expense ratio? Is one lower than the other?

Mac Armstrong

Historically, residential earthquake had been a bit of a higher margin. The cost of acquisition might be a little bit lower. But right now, in this market, just because of the rates, the increases that we've seen in commercial earthquake, the underlying unit level economics are almost at parity. A residential earthquake policy or commercial earthquake policy in 2024 are going to have the same margins.

Christopher Uchida

One follow-up on that. When you look at our acquisition expense ratio on a gross basis, right, I think 10.5% for the quarter, we expect that to be pretty flat for the year, right? Overall mix of business, whether it be residential earthquake, commercial earthquake or even changes in the Fronting dynamic, we don't expect to have a material impact on that ratio as we go forward.

Operator

Our next question is from Meyer Shields with KBW. Please proceed with your question.

Meyer Shields

First, I know Cincinnati is targeting higher net worth homeowners. I'm wondering, does that translate into maybe writing accompanying residential earthquake on non-admitted paper?

Mac Armstrong

It is on a non-admitted basis. We are writing that as an E&S policy as an accompany to their high-net-worth E&S offering in California.

Meyer Shields

On Crop, I think Chris said that 30% of the written premiums come in the first quarter and the balance in the third. Is that a normal run rate? Or when you're ramping up, should we see higher percentages in the first quarter than this year?

Jon Christianson

For the next few years, we'd expect that to be fairly consistent. You'll see the third quarter be, by far, the largest quarter of written premium. The second largest will be the first quarter, and then there'll be a little bit in the second and the fourth quarter, but really, the third quarter is going to be where you'd expect to see the largest premium share for the year.

Meyer Shields

I know the retained premiums are going to be really, really low. But there are different approaches that a lot of the crop insurers take in terms of booking profitability for that line of business. In other words, waiting until, let's say, the fourth quarter before taking the combined ratio on the retained book below 100%. How is Palomar planning on, I guess, booking that line?

Jon Christianson

Yes. It's a good question. The third quarter premium that we book will have a little bit of a catch-up effect with it. A lot of that premium is originated earlier. Then, we wait for the acreage reports to come in, which generally will start coming in June-ish, but mostly in July.

At that point in time, we will book all of the written premium, and then there will be a slight catch-up of earned premium, which obviously comes with a combined ratio. There will be some earning of it in the third quarter and then throughout the remainder of the year, as most of that does end at the end of the year. We will be booking most of written premium, but then some of those, call it, the profitability through the third and the fourth quarter for that book of business.

Christopher Uchida

I'd say that we'll look similar to others in the market in terms of the timing of when those profits are taken in or recognized. Usually, the modeling becomes clear at the end of the third quarter and into the fourth quarter, which gives you more confidence on the loss ratio for the year.

Meyer Shields

Okay. Perfect. Last question, and I'm not exactly sure how to ask this, but Mac, you talked about being bigger and how that should allow for growth on more accounts. Is there any way of, I don't know, ballparking it or describing the relevance of the higher-size category?

Mac Armstrong

I think it's hard for us to quantify right now. We had a commercial underwriting meeting a week or two ago. Our underwriters were pleased that with the increase in financial size quarter, it's probably most relevant for our environmental team and our professional liability team. But then, they immediately asked when are we going to get an A rating? That might be more impactful. I would love to say it's a lot like what it was in 2020 when we got over $250 million, and that opened up a few different distribution channels that we couldn't see previously.

Now it's just more about insured appetite and the credit rating requirements for certain larger accounts. I can't quantify it right now. I think it's going to open up a lot, and I think it would definitely help from a recruiting standpoint. But I'd love to give you a dollar number. I just can't right now.

Operator

Thank you. Our next question is from Pablo Singzon with JPMorgan. Please proceed with your question.

Pablo Singzon

Maybe for Mac or Chris, you mentioned about 5% price increase on reinsurance embedded in the guidance. What dollar benefit would you get if prices go up by, say, only 4% or 3%? I know the dollar cost of XOL will also depend on exposure and structure. But holding all that constant, how much dollar savings do you get if reinsurance pricing is more favorable than what you're assuming?

Christopher Uchida

When you look at our book, and we've talked about it before that the cost of risk transfer last June 1 was about $230 million, right? We will be buying more excess of loss reinsurance to cover the increase in our exposure. Let's say, when our exposure went up 10%, let's call it, $250-ish million, $253 million that we're going to be spending, right? We were expecting some sort of rate increase. Right now, we're saying 5% on top of that, you kind of do that math.

You just kind of work it backwards. If you have a 1% savings on $250 million, that's $2.5 million over the full treaty year. From our standpoint, that's probably the right way to think about it when you go in there. Now not saying that's our exposure change or anything like that. But just when you want to do the math, that $230 million is probably the right base to think about what our opportunity is or what our potential additional cost is going to be at the next renewal.

Pablo Singzon

Then, second question, just thinking about the business mix change, I think, Chris, you had said on this call about one point to two points deterioration in the attritional per quarter. My memory might be rusty, but it seems like that might be a tad faster than what you said before. Is that because attritional lines are growing faster? Then, as a follow-up to that, I think in the 2022 Investor Day, you guys had given all-in combined ratio guidance for Earthquake and, let's just call it, non-Earthquake. Does that margin guidance still stand as we think about the mix here?

Christopher Uchida

Yes, I think maybe one point to two points is, I would say, a little bit conservative. I think if we get up to the mid-point of our range of 21% to 25%, which is in that 23% range, we feel good about where it is for the full year. I think it does move around on a quarterly basis. You guys are very familiar with the insurance business.

Obviously, we don't control the losses. If it swings up one point or two points in a quarter, it doesn't mean anything is going wrong. It's just naturally where things go, and it can also go the other direction, one point or two points down. But overall, we're very comfortable with where things are going. We are seeing very good strong growth in our lines of business that you have attritional, that's going to be the Inland Marine and special property. That's going to be some Casualty. Everything is going the way we expected, strong growth there. When I look back and think about Investor Day, I'm going off a lot of memory here, but it does feel pretty consistent with how we've lined up.

We haven't made significant changes to any of our quota shares. We started taking a little bit more on some of those, but not what I'd call a material variation from what we shared during our Investor Day. Some of that thesis at Investor Day was maintaining the same participation. That is still, I would say, a lever we have to pull over time.

Then as our balance sheet grows, we can start taking more and more on some of those lines, which will obviously help profitability or the bottom line continue to grow because these are profitable lines of business where we are, I would say, sharing a lot of that margin with the reinsurers that, over time, we will start putting on our balance sheet. That's not going to happen all next year. But I'd say over a five to 10-year horizon, more and more will start coming onto our balance sheet, which will help continue to grow that bottom line.

Mac Armstrong

The thing that I would add is, we still feel very good about a sub-75% combined, even if that loss ratio moves up one point or two points, like Chris was describing.

Pablo Singzon

Then, last for me, you had referenced better ceding commissions on the Casualty quota share. But then you also said that as a percentage of gross earned, you think acquisition expenses stayed flat. It doesn't seem like that benefit on the ceding is that meaningful, right? Is that the correct read? Then with the overall number, I guess, that's a more appropriate thing to say. Is that fair?

Mac Armstrong

Yes. I think it's just a matter of business mix, right? Inland Marine and Other Property, Casualty is only 14% of the business. What was in that quota share probably constitutes about 40% of that number. That's, call it 5% of that overall did see slightly improved ceding commission. It's just business mix.

Operator

Thank you. There are no further questions at this time. I would like to hand the floor back over to Mac Armstrong for any closing comments.

Mac Armstrong

Thank you, Operator, and thank you to all who joined us this morning. We appreciate your participation, your questions, and most of all your continued support.

To conclude, we're off to a strong start to the year. I would be remiss if I didn't thank our team at Palomar for their continued dedication and hard work, which is ultimately the driving force behind our terrific results and success, not just this quarter, but these past 10 years.

I remain confident in the growth trajectory of our business, combined with our continued focus and our ability to deliver predictable earnings and returns. As an aside, in addition to our 10-year anniversary, we recently celebrated our fifth year as a public company. I want to thank our investors for support these last five years. We will continue to work in earnest on your behalf and will drive shareholder value.

Thank you very much. Have a nice day, and speak to you next quarter.