S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

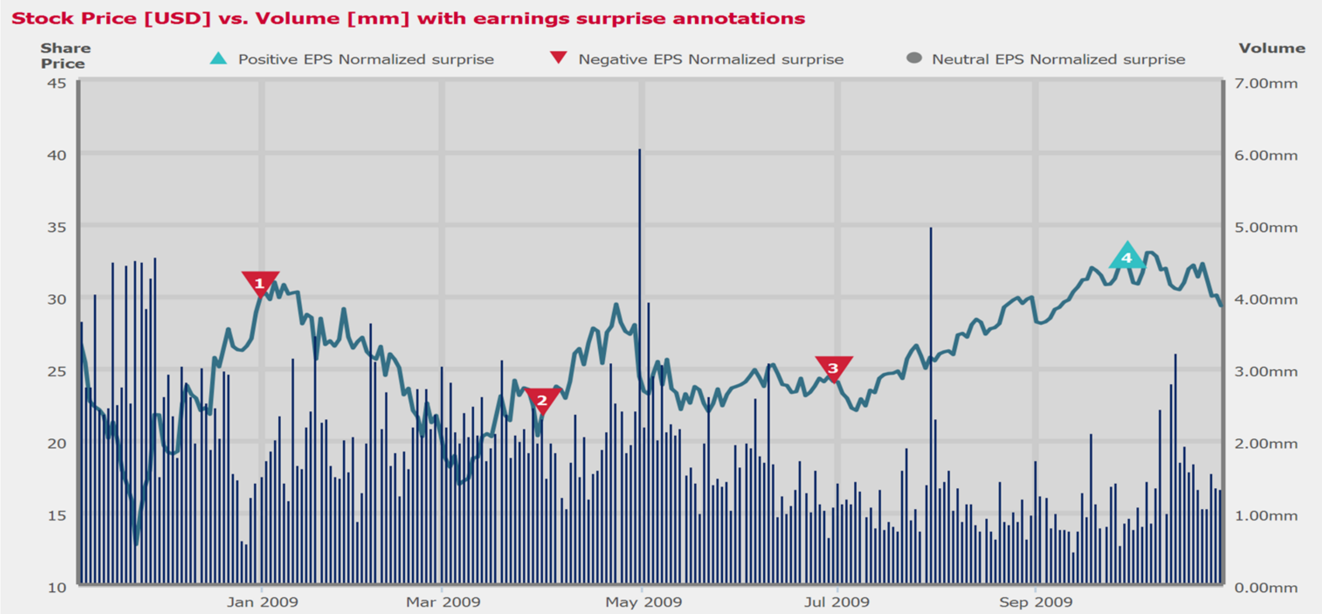
FQ4 2009 Earnings Call Transcripts

Thursday, February 04, 2010 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2009-			-FQ1 2010-	-FY 2009-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.00	1.16	▲16.00	1.08	4.08	4.28
Revenue	-	-	▲3.06	-	-	-
Revenue (mm)	2117.36	2182.14	-	2107.10	8613.39	8700.50

Currency: USD
Consensus as of Feb-04-2010 1:56 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2008	1.53	1.31	▼1 (14.38 %)
FQ1 2009	1.43	1.17	▼2 (18.18 %)
FQ2 2009	1.19	0.84	▼3 (29.41 %)
FQ3 2009	0.93	1.07	▲4 15.05 %

Table of Contents

Call Participants

EXECUTIVES

Christopher John Pagano
Executive VP & Chief Risk Officer

Melissa Kivett

Mike Peninger

Rob Pollock

ANALYSTS

Ed Spehar
BofA

Jeff Schuman
KBW Investments

Jimmy Bhullar
J.P. Morgan

John Nadel
Sterne, Agee

Mark Hughes
SunTrust

Steven Schwartz
Raymond James & Associates

Vinay Misquith
Credit Suisse

Presentation

Operator

Welcome to the Assurant fourth quarter 2009 financial results conference call. All participants will be in a listen only mode for the duration of today's call. Following the presentation, we will open up for questions. Instructions will be given at that time. As a reminder, today's call is being recorded. I would now like to turn the call over to Ms. Melissa Kivett, Senior Vice President, Investor Relations. Please go ahead, Ms. Kivett.

Melissa Kivett

Thanks so much. Welcome to Assurant's 2009 fourth quarter earnings conference call. Joining me with prepared remarks are Rob Pollock, President and Chief Executive Officer of Assurant, and Mike Peninger, our Chief Financial Officer. Prepared remarks will last about 20 minutes and then we will open the call to questions. Chris Pagano, our Chief Investment Officer and Treasurer, is also here for questions.

Yesterday we issued a news release announcing our fourth quarter and year-end 2009 financial results. The news release as well as corresponding supplementary financial information are available on our website at assurant.com. Some of the statements that we make during today's call may contain forward-looking information and our actual results may differ materially from those projected in these forward-looking statements.

We caution you about relying on these forward-looking statements and direct you to consider the discussions of risks and uncertainties associated with our business and results of operations contained in our 2008 Form 10-K and subsequently filed forms 10-Q and 8-K, which can be accessed from our website. The company undertakes no obligation to update or revise any forward-looking statements.

Additionally, this presentation will contain non-GAAP financial measures, which we believe are meaningful in evaluating the company's performance. For more detailed disclosures on these non-GAAP measures, the most comparable GAAP measures, and a reconciliation of the two, please refer to yesterday's earnings release and the supplementary financial information that you can find on our website.

Now, I'd like to turn the call over to Rob Pollock.

Rob Pollock

Thanks, Melissa, and good morning, everyone. I want to thank our employees for their continued efforts to meet customer needs and provide service to our clients in what has been a challenging year for everyone in the financial services sector. Our business results fluctuated, but our commitment to our customers did not. Our capital and asset management strategies helped us strengthen our balance sheet. Meanwhile, we have taken and will continue to take actions to grow our business, manage expenses, and improve our results.

Let me highlight some key items in our results. In 2009, we generated an operating return on equity of 10.1%. Although this result is not indicative of our aspirations or historic performance, it is solid, especially when evaluated in context of the environment. We grew our book value per diluted share, excluding accumulated other comprehensive income by 9% for the year despite significant legal expenses and a goodwill impairment charge.

We instituted cost reduction and expense saving initiatives that resulted in restructuring charges of about $12 million after-tax in the quarter and about $19 million for the year. These initiatives will generate run rate savings of about $22 million after-tax annually at current expense levels across the company.

As we highlighted in our news release, we took an $83 million impairment charge to goodwill this quarter. The accounting rules on this issue are very technical, but I want to put it in context. This is a non-cash charge. It has no impact on statutory earnings or our deployable capital position. And finally, it has not changed our outlook for our businesses.

Let me comment upon the litigation reserve increase of $24 million after-tax in Assurant Health. Last Friday, a jury in Colorado returned a $37 million verdict against us on a case that was filed in 2006. While we cannot comment on the specifics of this case, we disagree strongly with the verdict and will vigorously pursue post-trial motions as well as an appeal.

Independent of this verdict, the health insurance landscape is changing quickly. Assurant Health has taken steps to help ensure that customers better understand the individual and short-term policies they are purchasing. We offer an independent third-party medical review beyond our internal appeals process for any situations where there is a rescission of coverage.

Before turning to Mike for an in-depth view of results, let me highlight our outlook for 2010. Beginning with our businesses, we expect continued evolution in the marketplace at Specialty Property. We know that the overall number of mortgage loans outstanding is declining and expect this trend to continue until the residential real estate market recovers. The decline will be more pronounced in the subprime sector where policy placement rates are higher.

The movement of portfolios between loan servicers will continue to create quarterly variability in gross written premiums beyond the seasonality we have seen in this business. Consolidation of mortgage portfolios by our clients will pressure margins as loans transition to terms found in the most favorable portfolio contract.

We estimate this will be a reduction to our earnings of between $10 million and $20 million after-tax in 2010. The team at Specialty Property is working hard to manage expenses, capital and catastrophic risk exposure. Property should continue producing strong operating results and ROEs, leveraging our leading position in the creditor-placed market.

Now let's turn to Assurant Solutions. Although profits improved in the quarter and the year, results in the UK are very disappointing and have masked the improvements within the rest of Solutions. So we are taking further actions to remedy this problem in addition to those already implemented. We expect to see our international combined ratio improve by 1% to 2% per quarter over the course of 2010.

Revenue growth prospects at Solutions are good. We are pleased to announce the addition of several new clients this year in the international area totaling nearly $100 million in production. New clients include Brazil's third largest wireless carrier TIM where we leveraged expertise from our Signal acquisition, and two top retailers in Brazil, Marisa and Centauro. The new clients in distribution channels we are adding will help offset business loss from client bankruptcies and a slowdown in consumer spending.

Our strategy to partner with original equipment manufacturers is producing results, and we are pleased to announce a relationship with Whirlpool in Italy. We are benefiting from our preneed partnership with SCI, as they continue to add new funeral homes, which will start producing for us in this year. Solutions will begin to execute on a two-year plan to streamline its organizational structure, which we estimate we will free $75 million to $150 million in capital. All of these actions will lead to meaningful improvements to this business's ROE.

Moving next to Assurant Employee Benefits, our focus remains on the small employer, particularly through the sale of Worksite or voluntary employee-paid products, which should continue growing at a double-digit pace. We've taken actions during 2009 to improve our dental results, and additional changes are planned for this year.

We recently extended our shared dental network relationship with Aetna through 2012, allowing us to continue to offer small employers one of the largest dental networks in the country in conjunction with our product. Combined with expense efforts, we expect profits to improve this year.

At Assurant Health, the pricing and plan changes we've implemented, combined with expense reduction efforts, are expected to return the Health business to target profitability in the range of 4% after-tax by late this year. Results are tracking consistent with our assumptions based on our experience in the second half of 2009.

We continue to work closely with the industry and with members of Congress to offer constructive suggestions for the reform of our healthcare system in the US. We are hopeful that reform will focus on programs that work to reduce costs and provide affordable healthcare options to all Americans.

And finally, as we look ahead, I'll comment on our capital position. At year-end, we had $710 million of total corporate capital. This reflects following through on our promise to build our corporate capital position. Excluding the $250 million capital buffer we established, we have over $450 million of capital that is available for deployment, which is significantly more than has been available in the last two years.

A strong capital base provides us with the flexibility to execute on our capital management priorities, investing in our businesses, pursuing prudent acquisitions, and returning capital to our shareholders via dividends and share repurchase programs.

Currently, we believe our stock is undervalued, and with the SEC matter now behind us, we expect to begin repurchasing shares after the earnings blackout period ends on February 8. We have a total of $770 million in share repurchase authorization. This represents about 20% of the total shares outstanding at today's price. We expect to use at least half of this authorization over the next few years.

Now I'll turn it over to Mike to talk about our results in more detail. Mike?

Mike Peninger

Thanks, Rob. Let's now take a deeper dive into each of our businesses, starting with Assurant Specialty Property that once again displayed its market strength during 2009. Net operating income for the fourth quarter was $107 million, down from $118.5 million in the fourth quarter of 2008, but still our highest quarter of net operating income in 2009. For the full year, NOI was $406 million, flat with 2008.

The drop in fourth quarter earnings reflects lower earned premiums, higher non-catastrophe claims, and higher reinsurance costs versus 2008. These increased costs were partially offset by the absence of reportable catastrophe losses in 2009. Our full year NOI benefited greatly from the benign hurricane season.

We had no reportable catastrophe losses for the year compared with $100 million of after-tax catastrophe-related costs in 2008. On the other hand, a significant decrease in premiums from real estate owned policies, higher reinsurance costs, and higher non-catastrophe losses adversely impacted our operating results.

Net earned premiums were down 4% for the quarter and 5% for the full year compared to 2008. The decreases were primarily driven by reduced premiums from real estate owned properties and were partially offset by increased placement rates in our non-real estate owned creditor-placed business. Reinsurance costs, which reduced net earned premiums, increased by $10 million for the quarter and $30 million for the year.

Gross written premiums increased over the fourth quarter of 2008 and were up considerably versus the third quarter of 2009. The fourth quarter gross written premiums reflect non-recurring factors related to two specific clients. We expect gross written premiums in the first quarter of 2010 to return to lower levels, in line with the normal seasonality of the business.

We previously announced that we would lose 230,000 subprime loans to consolidation in January. However, we are now pleased to announce that we have added 155,000 subprime loans, approximately half from consolidation and half from a new client. 75,000 of these will begin producing premium in the first quarter this year and the other 80,000 will begin producing in the second quarter.

While our leading position in the creditor-placed market allows us to retain many of the portfolios when they are combined, industry consolidation will affect our top and bottom lines. Some of the larger clients share more of the risk on their portfolios and their contracts reflect the scale of their operations. We expect that an additional $150 million of premium in certain client portfolios will be reinsured in 2010, thus reducing our net earned premiums.

The Specialty Property team continues to diligently manage expenses and look for new opportunities to add value for their clients in the rapidly changing environment. In the meantime, we are focused on dividend in our earnings out of the business and maintaining our overall financial flexibility. We believe that we will be able to dividend all of our properties' earnings for 2010 to the holding company. In 2009, property dividended [ph] out about 120% of its earnings.

So in summary, we are pleased with another very solid quarter and year at Assurant Specialty Property. While revenue is moderating, we expect the business to continue to produce strong returns.

Let's now move to Assurant Solutions, where in spite of a collapse in consumer spending, profits improved and growth opportunities were identified, but we still have work to do in the UK. Net operating income improved for both the fourth quarter and full year versus 2008 despite continued very poor loss experienced in the UK. Typically we do not disclose individual country results. But since the UK results are so far below expectations, I want to provide some additional color.

The UK losses continue to be driven primarily by our unemployment-related products. As we have previously reported, losses from the Internet distribution channel for these products have ceased due to our exit from that channel. Unfortunately, in the latter part of the year, losses from similar products sold through more traditional channels increased as a result of the prolonged high unemployment situation, thus delaying the profit recovery.

The poor experience resulted in an after-tax loss of $11 million for the quarter and $35 million for the year. This compares to losses of $5 million and $7 million for the comparable 2008 periods. These results are clearly unacceptable, and we have accelerated efforts to fix the problems. While we are pursuing all possible corrective actions, the continued poor economy in the UK makes rapid progress difficult.

The international combined ratio for the fourth quarter increased versus the fourth quarter of 2008 and sequentially to 114.5%. In addition to the UK losses, we incurred $10.4 million of pretax restructuring expenses in our European operations during the quarter, as we made a number of organizational changes to increase our operating efficiency.

We are pleased with our domestic results, where the combined ratio for the quarter decreased to 94.6%, its lowest level in the past two years and below its long-term target of 97% to 98%. This result reflects the particularly good loss experienced in the extended service contract business from existing and run-off clients.

Revenue grew modestly in Solutions when adjusted for the impact of the change in accounting for preneed and the impact of foreign exchange. Absent these two factors, premiums were up 3.7% year-over-year. Preneed sales growth was strong, driven by growth at our sales partner SCI. We saw positive same-store client sales trends and added nearly $100 million of sales from new clients in 2009, including Whirlpool and the Royal Bank of Canada.

Efforts to reduce expenses and gain efficiency were a continued priority in the fourth quarter. Total restructuring charges, including the international restructuring costs I mentioned earlier, were $8.4 million after-tax for the quarter and $10.8 million for the year. Through various restructuring and consolidation initiatives, a total of about 240 full-time equivalent positions were eliminated in 2009. While painful, these reductions will provide run rate savings of about $15 million pretax per year going forward.

Looking forward, we expect Solutions to make significant ROE improvements over the next few years. The 2009 ROE of 7.5% was well below our targeted range of 14% to 16%, but we expect steady improvements over the next two years as the UK experience is corrected, new clients come online, and we reduce the capital in the business.

Now let's move to Assurant Employee Benefits, where results have been pressured by the persisting economic challenges in the small group sector, leading to higher lapse rates and lower premium growth on in-force policies. Although we are seeing more optimism in small business owners' outlook, they remain cautious in adding new employees, and wage growth continues to be modest.

Net operating income was down 18% for the quarter and 40% for the year. The declines reflect the decrease in premiums and lower investment income. Results include restructuring charges of $1 million for the quarter and $2.5 million for the year. We were pleased to see modest sequential improvement in our dental loss ratios during the quarter, as our pricing actions begin to take hold and we expect dental experience to continue to improve in 2010.

Employee Benefits is finding other ways to grow even in this difficult environment. Full year sales of voluntary coverage were up 13% to almost $60 million for the year. 2010 revenue will also increase by approximately $100 million due to new client addition at Disability RMS and the Shenandoah Life block we acquired in 2009. I should note that neither of these are reflected in the sales figures in our financial supplement.

Now let’s turn to Assurant Health. 2009 was a challenging and disappointing year for Health with a loss of $29.7 million for the quarter and $30.2 million for the year. The fourth quarter includes the $24 million after-tax charge due to the adverse jury verdict Rob mentioned. I should note that the operating results we are discussing today reflect the full amount of the jury verdict that was delivered last Friday. If a final judgment is entered by the court before we file our 10-K, then the amount is materially different. We will reflect this revised amount in our filings.

Health fourth quarter also includes H1N1 expenses of $2.5 million after-tax. This was less than we projected on our last call, as the virus has not been as widespread as originally feared. We now anticipate that we will incur another $2.5 million to $3.5 million after-tax of H1N1-related claims costs in the first half of 2010.

The quarter also includes restructuring charges of $2.9 million after-tax, as the business took action to reduce its expense base. We expect this to reduce our annual run rate of expenses by approximately $5 million after-tax. In addition, we took advantage of a soft advertising market to increase direct marketing presence in the fourth quarter, adding about $1.5 million to expense levels for the period. In 2009, sales in this channel grew by 48% to $54 million.

Net earned premiums were down 3% and 4% for the quarter and year respectively. The decreases were caused by high lapses of individual and small group policies, driven by the combination of price increase and general concerns over the affordability of coverage.

In summary, at Assurant Health, we are facing some tough and sometimes unpredictable challenges, but we are taking actions to best prepare and operate in the new health insurance environment that continues to evolve in the United States. Our overall experience in the fourth quarter, absent the Colorado jury verdict, was consistent with the assumptions underlying our pricing actions, and we continue to believe that in the absence of similar large events, Health is on track to return to profitability in the range of a 4% net margin late in 2010.

I’ll turn next to our investment portfolio. AOCI was a positive $66 million at year-end 2009 compared to a negative of $671 million at year-end 2008. The $737 million improvement is primarily due to gains in the portfolio market values. Lower interest rates have led to lower investment income, however we have a reinvested most of the cash held at the operating companies in higher yielding intermediate term securities, which has helped stabilize quarterly investment income, albeit at lower levels versus 2008.

We remain quite pleased with the performance of our commercial mortgage portfolio, which accounts for about 11% of the total investment. We do, however, expect that 2010 will be a more challenging year for the commercial property market due to the effects of sustained high unemployment.

Let me now turn to goodwill. We recently concluded our annual goodwill impairment testing. We hold our goodwill in the corporate segment of our balance sheet, but the testing is done at the business segment level. We concluded that we did not have an impairment in the goodwill assigned to our Solutions, Specialty Property, or Health businesses.

Our test indicated, however, that an impairment of $83 million was necessary for the goodwill allocated to our Employee Benefits segment. The impairment resulted from the continued gap between the estimated fair value and book value of the segment from the challenging near-term growth environment in the

Benefits business. We remain confident in the long-term prospects for Assurant Employee Benefits. Going forward, we expect to maintain our policy of testing our goodwill asset annually in the fourth quarter.

So in summary, while we are not satisfied with our overall results for 2009, each of the businesses confronted the reality of the economic environment and took the size of actions to better position itself for the future. Each has identified solid opportunities for growth, and each will continue to focus its resources on those opportunities while minimizing expenditures on other areas.
And with that, I'd like to open the floor for questions. Operator, we are ready for questions.

Question and Answer

Operator

Thank you. (Operator instructions) We will hear first from Ed Spehar with BofA.

Ed Spehar
BofA

Thank you. Good morning, everyone.

Rob Pollock

Good morning, Ed.

Ed Spehar
BofA

I have a couple questions. I guess first on the comments, Rob, on the use of the authorization, I think you said at least half over the next few years. And I was wondering if - maybe we could get a little bit more color on that, just simply because the comments that Mike just made about the plans to dividend up all of property earnings this year, I guess maybe you could give us an update on the other subs. You used to say $170 million to $230 million from the other subs. I'm assuming that's down because of Health, but could you give us a little bit of an update on that?

Rob Pollock

Sure.

Ed Spehar
BofA

And I guess whatever that number is, it's still something. And I guess if I look at that number versus I look at the property number, which - I don't know, if you think earnings are going to be up or down next year, but it's still a significant number relative to what's your annual interest, corporate and dividend expenses of probably like $150 million, $160 million. It seems like you've got a lot more capacity to do buybacks and just half of that over the next few years.

Rob Pollock

Okay. Were there others, Ed, do you want me to just start there?

Ed Spehar
BofA

That's probably good enough for now.

Rob Pollock

Okay. Good. Well, first, I think that one of the strengths of our business model is that we generate free cash flow. And we are starting with that $450 million of deployable capital, and we hope to generate more of it. So in looking at things then, we mentioned we see the share price is very attractive, we are going to be in the market. We are going to evaluate, because we have capital management strategy, what happens to the price and what happens to our available cash and what are the best priorities for use of the resources. Let me just turn things over to Chris Pagano to make a couple comments on it as well since he is intimately involved with it.

Ed Spehar
BofA

Sure.

Christopher John Pagano
Executive VP & Chief Risk Officer

Hi, Ed. I think the key for us with regard to the share repurchase program is to maintain flexibility. We think just - and again, to anticipate a potential other questions that might come up, we've decided against an accelerate share repurchase program. We think that that has certain short-term benefits, but doesn't make sense over the long-term. I think capital management, we prefer to be more dynamic and more flexible. Again, the priority is of investing in the business, pursuing prudent acquisitions, and then again returning capital to the shareholders. We're going to reevaluate our dividend policy, which we do typically in the second quarter every year. But to maintain the flexibility as we get better line of sight on earnings, dividend, capacity and risks of the business, we think it makes sense to return the capital over time in a way that allows us to prioritize according.

Ed Spehar
BofA

Can I just cut it - I'm sorry, can I just have one second? I guess when we talk about the priorities though, by definition, if you are generating more cash, then you can invest in the business, which is what you are suggesting with saying, you know, the dividends you're going to take, you don't need that to invest in the business. So I mean, it seems to me like you crossed that one off of the list. Secondly, when you talk about priority acquisitions, I mean it's hard to - it's hard to believe you're going to find something that's more attractive than your stock at 75% of book value. So I guess it's just - I know you and others talk about this list of priorities, but I'm just wondering when you stack up those three and sort of check off the first one, because by definition, if it's excess capital, you don't need that to invest in the business.

Rob Pollock

Sure. Ed, all fair points. I mean, again, we invest in the businesses as we generate growth with more requirements. We capitalized A.M. Best. So again, we will review through their normal process, are there any changes in requirements there. And again, we are going to be buying today because the threshold - I think Chris said this very well. The threshold for acquisitions is up given where the share price is today. Ultimately we want to grow the business though and we want to have a - we want to have an enterprise that has more. Okay? And if we just buy back all the time, we are going to stay at the same size from a market capitalization standpoint. So - again, the great thing about our model is it's going to allow us, we believe, the capability to do all these things. And you've seen that, you know, although we've talked about acquisitions for the last year, 2009 was a year in which I think the insurance industry had the least M&A activity probably in the last 20 years. We are just trying to look at this with a long-term eye on things, not just the current point of view.

Ed Spehar
BofA

Okay. Just the numbers really quickly. Could you give me some update on what that 170 to -?

Rob Pollock

Sure. I think maybe the easiest way to think about it, Ed, is we are in a position to dividend the earnings out of all of our business. Okay? And then we have some expenses at the holding company that are not allocated out to the businesses. And those have typically run in the neighborhood of $50 million, plus or minus. We have interest expense that we need to pay, and we have dividends to shareholders. So those are the three subtractions, if you will, against the operating earnings from the business. And of course, we are talking about slight differences between GAAP earnings and stat earnings. Stat earnings are what we can dividend out of the companies around the capitalization levels.

Ed Spehar
BofA

Great. I understand all that. But just can - is there any way to give us maybe historically of that $170 million to $230 million you used to talk about, how much of that was Health?

Rob Pollock

Well, obviously if you go back in time, Health produced a fair amount of earnings. Okay? I think one of the other ones to look at that we are mentioning here today is we are working on streamlining operations in Solutions, which would allow us to dividend more than the earnings. Okay? And so we've started another restructuring project around organizational streamlining. We are not exactly sure of the timing, but we think we can free another $75 million to $150 million of capital there as well. So again, we are trying to manage the capital very efficiently and put it in the context of making and prioritizing deployment of the capital on a long-term basis.

Ed Spehar
BofA

Okay, thank you.

Operator

We'll take our next question from Steven Schwartz with Raymond James & Associates.

Rob Pollock

Good morning.

Steven Schwartz
Raymond James & Associates

Hey, good morning, everybody. I (inaudible) go here, but I just - I do want to follow up on what Ed was talking about. It seems to me you've got $400 million of excess capital. Now you've got, as you said, your dividends, your - you've got your interest expense, you've got other hold-co expenses. I mean, you - it would strike me that you can conceivably, ex share repurchase, be sitting on $600 million excess capital by the end of this year?

Rob Pollock

Yes, but we are going to be back in the market next Monday.

Steven Schwartz
Raymond James & Associates

Right, right. So take that out. But still, like Ed, it strikes me as a lot of money to - lot of money to hold on to. But be that as it may.

Rob Pollock

No, again, we are not proposing we are going to hold on to all of it. I think - again, you are commenting on how much of that authorization we said we'd use. And we said at least half. Maybe we will use more. Okay? Remember, we tend to take our dividends more toward the end of the year when we have a line of sight, as Chris mentioned, particularly on our property earnings. Okay? So I think that the takeaway message here is, we've got a lot of financial flexibility and we are going to deploy it in the most prudent manner we can. And share buyback is right now at the top of the list.

Steven Schwartz
Raymond James & Associates

Okay. All right. Okay, if I can go on. I just want to - I want to try to make something clear here to myself on Specialty Property. Rob, I think you said that margin pressures, as loans are consolidated, could negatively affect earnings by about $10 million to $20 million. And then Mike talked about $150 million of business being reinsured. I've got two questions with regard to that. A, I wasn't aware that this business was reinsured, maybe you could discuss that. And B, does the effect of that reinsurances, is that the $10 million to $20 million that you were talking about or is that on top of the $10 million to $20 million?

Rob Pollock

Okay. So first, in our property section, we've tried to - if you look at the supplement, Steven, we go through and outline both growth and net earned premium, and we try and reconcile the difference between the two. And you'll see that there is a piece of our business that is seated [ph] to clients in our numbers. So we - there has always been co-participation of some level. And we think that as things move around, we are going to have a little more of that. I think that -

Mike Peninger

Yes, I think as larger clients and the feel that they can take a little bit more of the risk, so they tend to reinsure. And that's the source of the $150 million that we talked about, Steven.

Steven Schwartz
Raymond James & Associates

Okay. Yes, I understand that. I was assuming that that was substantially the US government.

Rob Pollock

No.

Mike Peninger

No.

Rob Pollock

I think that a key thing for you to focus in on is the gross earned premiums, because then the - our relationships with particular clients operate off that gross earned premium structure, but in our GAAP income statement, you're going to see net earned premium. And so that's one of the big reasons we display things there. Okay?

Steven Schwartz
Raymond James & Associates

Okay, sure. And then - so, is that on top of the $10 million to $20 million that you were talking about, Rob?

Rob Pollock

I think it's kind of in combination. So this is - that consolidation, a little more reinsurance, I think all of that creates this pressure. Okay? Now, the other side of things here is, clearly Gene and his team are working hard on expense saves. Remember, this business grew very, very rapidly. And even over the course of last year, we've been doing a lot of things for our mortgage servicers to provide more service. Okay? But as things have started to slow down, Gene and his team have looked to come in at how can we introduce some more operational efficiencies into the business. Okay? So, one is kind of what's going on with the contracting with our clients. The other is how we are trying to run the business to operate more effectively.

Steven Schwartz
Raymond James & Associates

No, I understand that. I guess my - what I was trying to get at was, you lose 150 million of premium that's probably something around $20 million. And then $10 million to $20 million on top of that.

Rob Pollock

Right. We are not losing the gross earned premium. And the terms and conditions are working off the gross earned, Steven.

Steven Schwartz
Raymond James & Associates

Right.

Rob Pollock

And so again, I think that's how to look at it. We're going to maintain our ROEs in this business, and we're focused on that as well. Okay?

Steven Schwartz
Raymond James & Associates

Okay. But you lose the earnings off of that 150.

Rob Pollock

Not - no, no. We have a relationship with the client that has dictated off a different set of metrics than it's been historically when it was with a different servicer.

Steven Schwartz
Raymond James & Associates

Okay. All right.

Operator

We'll take our next question from John Nadel with Sterne, Agee.

Rob Pollock

Good morning, John.

John Nadel
Sterne, Agee

Good morning. So a question on the expense run rate, you guys have taken a bunch of integration - a bunch of severance and related sort of charges this year.

Rob Pollock

Correct.

John Nadel
Sterne, Agee

What's the baseline - I guess that's the way - that's the way I want to ask it. What's the baseline of expenses that we should be looking at when you say that in 2010 your run rate savings will be roughly $22 million after-tax?

Rob Pollock

I think maybe the simplest way, because we have a lot of moving parts going on, John, is if 2009 started over and we had everything in place that we put in place, we have $22 million after-tax improvement to the bottom line from expense reductions.

John Nadel
Sterne, Agee

Okay. All right. Okay. I'll get on [ph]. International's combined ratio, I think if my math is correct, maybe you can just confirm this for me. You reported 114.5%, but if I take out the $10.5 million roughly of pretax restructuring costs and take out - not that it's going to go from $17 million pretax loss to zero in the first quarter, but if we can believe that you guys can get that UK business at least a breakeven, it seems to me the combined ratio underlying is 102.

Mike Peninger

I think Rob said, John, that we go down by one to two points per quarter over the course of the year.

John Nadel
Sterne, Agee

Yes. I guess - okay. So - let me say it in a different way. The 114.5%, if I take out the restructuring costs, I get - it's about five points, right? So I get to about 109.5?

Mike Peninger

Yes, (inaudible).

John Nadel
Sterne, Agee

Yes. So if I'm taking out one to two a quarter, four to eight for the year, six at the midpoint, that 109 is going to roughly 103.

Mike Peninger

That's a fair way to look at it.

John Nadel
Sterne, Agee

Okay. And the business is growing. Correct? I mean, new client additions -

Mike Peninger

(inaudible)

John Nadel
Sterne, Agee

Right. Okay. All right. So that's helpful. Then I guess the last one for you is just to really come back to the capital issue just one more time. And I don't want to get bogged down on this. My suspicion is it's really just more of maintaining some flexibility in understanding that your stock is going to move during a period of time, and who knows what becomes more attractive on a relative basis at what point during the year or even in 2011. But just wanted to follow up on Steve's question, the $450 million roughly of excess capital or deployable capital at year-end '09, I think Steve mentioned he gets you to about $600 million by year-end 2010 if you don't do any buybacks. I actually get you to - I get you to more like $800 million. I mean, assuming cats are just - it's a reasonably normal catastrophe year, I mean, why aren't you producing sort of free cash flow that's in excess of your earnings, right, because - I mean, if property is going to dividend 100% of earnings and then some capital on top of that, isn't the deployable capital assuming no buybacks? Isn't it significantly higher than that a year out?

Rob Pollock

If there is no buyback, the answer is yes. Again, what we've outlined, John, is all of property's earnings is our target for the year. Obviously if we can get more, we will. But we see Solutions as an additional source of capital that -

John Nadel
Sterne, Agee

That's sort of my point, Rob, is - I think you sort of - I mean, I'm - not attacking the math, I just think you sort of okay-ed Steve's number and I think Steve's number is low, no disrespect to Steve.

Rob Pollock

Again, you - I think the way to think about this is all the earnings are coming up a little more from organizational streamlining, and then we have the uses that Ed talked about, which are interest, dividends, and corporate expenses not allocated out to the businesses.

John Nadel

Sterne, Agee

Okay. So last one for you then. Let's assume it's a good year for Solutions. Okay? Let's assume that UK gets back to breakeven, does all - you know, you get that combined ratio down sort of at the midpoint, you get that $75 million to $150 million of capital out, and you grow this business. The ROE of 7.5% in 2009, how much do you think - in a good year, how much do you think that ROE can improve in Solutions?

Rob Pollock

You know, I don't have - I'm just going to - off of the top of my head, I'd rather do the calculation, John. But it's going to go up -

John Nadel
Sterne, Agee

It seems to me - I'm sorry?

Rob Pollock

100 to 200 BPs for sure. Remember, the - I'm not sure we'll get all the capital this year. Assuming you do, it will go up faster obviously.

John Nadel
Sterne, Agee

Yes, yes. Okay, obviously. But - okay. But it seems to me - it seems to me like you guys are really taking the steps in Solutions and then you layer on growth, and this is - the story might actually begin to move here.

Rob Pollock

Exactly.

Mike Peninger

I think the - as I said in my comments, John, the Solutions team is very focused on the UK and we are doing a myriad of things and have already done a lot of things. And so I think clearly they are very committed to moving that UK result as quickly as possible.

John Nadel
Sterne, Agee

Okay. Thanks a lot. I'm sure I've used up way more than my time. Thanks.

Operator

We'll take our next question from Jimmy Bhullar with J.P. Morgan.

Rob Pollock

Good morning, Jimmy.

Jimmy Bhullar
J.P. Morgan

Hi, thank you. Good morning. Most of my questions have been answered. I just had one on your Health business. I realize you're pricing the block. If you could give us some idea on how long it takes to reprice your block? Is it a year or would it be two years? And where do you - when should we expect the returns to get to (inaudible)?

Rob Pollock

Yes. We've talked, Jimmy, about Health being on track. They have started to implement the price increases, and you do that over the course of the year. As policies renew, you raise the price. Typically they have a one year rate guarantee. And then you are also adjusting your prices on new business that you are selling. So you've kind of got steady increases that go through the course of the year. And we've said that the target profitability for Health is in that range of 4% after-tax, and we expect to get to there - roughly that level by late next year, say the fourth - late this year, sorry, 2010.

Jimmy Bhullar
J.P. Morgan

And how much - is all of the business annually renewable or with a one year guarantee or is there some that have longer guarantee?

Rob Pollock

There is, I think, some that has longer, but not much. I think it's mostly annual. And then of course we have short-term products, which renew I think six months.

Jimmy Bhullar
J.P. Morgan

Okay, thank you.

Operator

We'll take our next question from Mark Hughes with SunTrust.

Rob Pollock

Good morning, Mark.

Mark Hughes
SunTrust

Good morning. Thank you. You talked about the two-year plan to streamline the Solutions business. Is that - are you contemplating it more cut to operating expenses or is that just managing the capital more efficiently and pulling - I think you said $75 million to $100 million in capital out of that operation?

Mike Peninger

It's really the latter, Mark. The Solutions operates in a variety of legal entities around the world. And there is different things we believe we can do to make more efficient use of the legal structure, which would allow us to get capital - to just use the capital more efficiently.

Rob Pollock

But I'd also add that in every one of our businesses, what we went through was painful. But I would say that it's - the whole restructuring has become part of the DNA of how we are trying to look at the businesses to operate as efficiently as possible.

Mark Hughes
SunTrust

Yes. And one follow-up. You had very good growth in your international credit business. Can you talk about your underwriting process there with the UK experience in mind?

Rob Pollock

Sure. Two things. First, a lot of that increase was the result of having written the Royal Bank of Canada. Royal Bank of Canada operates under one of the structures that has been in place for a long time with a kind of a back-end contingent commission arrangement. We have a lot of experience in Canada with - we've been there for over 20 years and think we understand things quite well there. I'd contrast that with the UK, we've talked about internationally that about 80% of our international business has kind of a client-sharing on profitability. Unfortunately, the UK happens to be the place where that 20% we don't have is over-represented, if you will.

Mark Hughes
SunTrust

Thank you.

Operator

We'll take our next question from Vinay - we'll take our next question from Vinay Misquith with Credit Suisse.

Rob Pollock

Good morning, Vinay.

Vinay Misquith
Credit Suisse

Hi, good morning. Hi. Could you provide some clarification on the timing of the gavel [ph] release in the Solutions business? Do you plan to do that this year or would that be spread out over the next couple of years?

Rob Pollock

Well, we are going to try and do it as fast as we can, Vinay. This stuff is sometimes complicated in that. It involves -

Mike Peninger

Regulatory -

Rob Pollock

Exactly. Regulatory approvals in some cases, et cetera. But we think - I think the key is we have the plan outlined on what needs to be done, and we will move things as quickly as we can from our standpoint, realizing we - there will be times when we were waiting for a response from someone else. So - okay.

Vinay Misquith
Credit Suisse

Okay. The second question was on the Solutions business. The domestic combined ratios were really good, 94%, lower than your target of sort of high 90s. What should we think of as a more normalized number for that next year?

Rob Pollock

I think there are two things. You know that there is where we have things priced. And then, as Mike mentioned, we are dealing with some run-off business that is producing good results. But I think the other thing and a credit to the whole Solutions team is they have worked hard to add more value and improve our profitability in this business with customers. So certainly we are benefiting from that run-off business. But I also think that if we can demonstrate we can add value, they will look to determine if we can get a little - improve our margin.

Mike Peninger

We haven't - you know, I think we are still saying that over the long-term that high-90s is sort of the target range, but certainly when we are doing better than that, they are doing everything they can at Solutions to try to maintain that.

Vinay Misquith
Credit Suisse

How long will the benefit of this run-off business be in the near-term?

Mike Peninger

Well, client bankruptcy, you are running off the premium over the term of our coverage. So you can think about it that - we sold business in the past, manufacturers' warranties expire, and then our coverage comes in and then we are earning over the remaining period of our warranty, which is typically I would say in that one to three-year range. So if you get further and further from the client bankruptcy, the premium - the earned premium declines.

Rob Pollock

So if we look at it in context of maybe two of the higher profile names for us, CompUSA is about done. Okay? And that was a contributor. We have another - a year to run on the Circuit City piece.

Vinay Misquith
Credit Suisse

Okay, that's great. Thank you.

Operator

We'll hear next from Jeff Schuman with KBW Investments.

Rob Pollock

Good morning, Jeff.

Jeff Schuman
KBW Investments

Good morning, Rob. How are you?

Rob Pollock

Good.

Jeff Schuman
KBW Investments

I was wondering if we could talk a little bit about the rescissions. You have had a couple of adverse verdicts. Those verdicts I think have attracted some media tension. I guess my concern would be that the verdicts and media tension might inspire additional litigation. Can you give us some sense of how many rescissions occur in a year and how much litigation there has been historically and I guess how much there is currently?

Rob Pollock

Sure. First, obviously we are very disappointed with the verdict. And right now, we have 16 rescissions cases in litigation at the company. But I think we need to put this in context of - you know, we've been in business for 115 years servicing policyholders and paying claims. And when you are in a voluntary market, which we are in, you can't stay in business without protecting yourself against material misrepresentation and omissions when people apply for coverage. And you got to remember individual coverage is different from group coverage, because we rely on medical information gathered through the application process to make decisions on coverage. And if we find out subsequently information was omitted or misrepresented, we, in some cases, exercise our right to rescind coverage and cancel the policy. And when that happens, we will turn premiums to people. And we recognize we can do a better job of communicating with the applicants and policyholders, and we review our communications and practices on an ongoing basis to improve customer service. We are a leader in individual medical insurance. We've got over 0.75 million people insured with the company, and in a very small set of situations, we have to rescind coverage.

Jeff Schuman
KBW Investments

Do you have any rough number - around how many rescissions there are in a year?

Rob Pollock

I don't have it with me, Jeff, but again we have an extensive process that provides the individual with the - a chance to appeal through us and even appeal through an independent medical exam. But it's a very, very small percentage. I'm sure less than 1%, maybe probably 0.5%, something like that, of applications that involve a rescission.

Jeff Schuman
KBW Investments

And you said there are 16 cases currently. How does that compare to the sort of historical? Is that kind of a high number historically or a typical number?

Rob Pollock

Two things. One is, the 16 includes the two cases we've talked about. So there are 14 others that you haven't heard about. What I have - I don't have the specific numbers on rescissions. What I have then is looked at our overall litigation log because I just don't have the split for prior years. But our litigation log in Health is down. We have 77 cases in total at year-end '09. That's down from 110 at year-end '07. And I've got the 16 rescission cases I mentioned earlier. I just don't have the 110 split, Jeff, but we're working to get that.

Jeff Schuman
KBW Investments

Okay. That's very helpful. Thank you.

Operator

And our last question will be from Ed Spehar with BofA.

Ed Spehar
BofA

Thanks. I promise it's not about share buyback.

Melissa Kivett

That's okay.

Ed Spehar
BofA

My question is on Specialty Property. You earned something above $400 million this year with no cats. If we go back and look historically, wide range since you guys have been public, but cats on average I think has hurt your results by maybe 4.5 points in the combined ratio. So if I look at 2010 and I think about the base level of earnings, something around $400 million, I load it for cats and I adjust for the $10 million to $20 million that you highlighted in terms of margin pressure. So we got a number - if all that stuff happens, you have a number that's down, say, in the $330 million or so range, I believe. The other pluses and minuses, can you just talk about them, specifically as you want, but just if we're thinking about an earnings forecast and we're thinking about the good stuff that can happen and the bad stuff, beyond cats and beyond the $10 million to $20 million you talked about margin? Thanks.

Rob Pollock

Okay. Couple different things. First is placement of our cat reinsurance program. Chris, you want to just comment on that a minute, and then I'll come back with a few others, Ed.

Christopher John Pagano
Executive VP & Chief Risk Officer

Yes. We've completed the January placement, Ed. And what we are seeing is rates online - equivalent rates online are down somewhere in the 10% to 15% range, as you would expect. There were no storms last year and capital is more plentiful. That's going to be offset to some extent on some of the change in the growth of the block in particular in the hurricane cat prone southeast coastal regions. So - but we do think if you were to go forward into June that we're going to see some absolute cost savings in terms of our reinsurance program. Now, the other variable - and this will come back to sort of what kind of cat experience we have in 2010. Our ability to buy second and third event covers cat (inaudible) et cetera. That's typically something that we will do as part of the June placement. The other variable will be the cat bond, which we are still considering as a possibility. The capital markets pricing there is very attractive, and we will consider that as we go through the first and second quarters.

Rob Pollock

Then on top of the cat side, other things to think about, Ed, are, we think we have streamlined operations and we will generate some expense rate run save. We think that's probably in the $3 million to $4 million range. We are looking for more. Kind of just related, a piece of color to what Chris talked about is, you know, you've seen our REO premiums drop. And we think - we think that they are probably pretty close as a percentage of our total to historic levels, but that was a big driver of things and it has an impact on our geographic footprint because more of those just happened to be in non-cat prone areas. Placement rates, you know what happens with placement rates, will drive results. We publish that data, and depending on what happens there, that could drive things. And I think the last one is kind of what Mike mentioned that - you know, there is new clients. We got a few. And when we can get in that RFP situation, that's a good one for us.

Mike Peninger

And we continue to think that the loan portfolios will move around. So there is that consolidation, which you've certainly seen. And we still think we win the majority of time in those, but that introduces some variance as well.

Ed Spehar
BofA

Okay. I guess just a follow-up then. It sounds to me like everything you just talked about is neutral to positive other than placement rates is sort of being an uncertainty. Is that fair?

Rob Pollock

Right, yes. In other words, we are trying to deal with whatever we can to run this business as operationally efficiently as we can.

Mike Peninger

The other two things I'd point out, Ed, the portfolio effect, which was a positive in 2009 versus 2008, we think that's - our best guess is that will be neutral for this year. But then the ability to get additional capital out if growth moderates, so that's going to be another - the variables that we described earlier were really around earnings. And then you've got earnings-plus, earnings-minus. Slowing growth would be an earnings-plus effect. And the portfolio we think is neutral at this point, although maybe that will change as the year goes on.

Ed Spehar
BofA

When you say portfolio effect, you mean the consolidation?

Mike Peninger

No, we are not talking about portfolio effect. Keep in mind, on the P&C side, you've got to hold back a certain amount of surplus - or capital for unrealized losses. We had significant unrealized losses -

Ed Spehar

BofA

Oh, right, I got you. Yes, I understand.

Mike Peninger

Yes.

Ed Spehar
BofA

Okay. And then just - can you just remind us what the bottom line impact was in 2009 from your reinsurance program?

Rob Pollock

It's in the supplement, Ed. Let me just grab it real quick. Let's see. Our total (inaudible) -

Mike Peninger

$180 million-ish I think.

Rob Pollock

Yes. Yes, that's correct. Pretax.

Ed Spehar
BofA

So pretax, it's the impact.

Rob Pollock

Yes.

Ed Spehar
BofA

$180 million. Okay. Thank you.

Rob Pollock

In closing, while we see encouraging signs, we are not contempt to wait for a full recovery. We have initiated significant actions to create our own opportunities for growth and to increase profitability. We are pleased with the new business momentum we are building. The cost-saving measures we have already implemented will yield benefits in 2010 and going forward. And our strength in capital position improves our flexibility to build shareholder value for the long-term. Thanks for your interest today, and we look forward to updating you on our first quarter 2010 performance on April 29th.

Operator
This does conclude Assurant's fourth quarter 2009 call. Please note that a replay will be available as of 12:00 PM Eastern Time. You may now disconnect.