S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

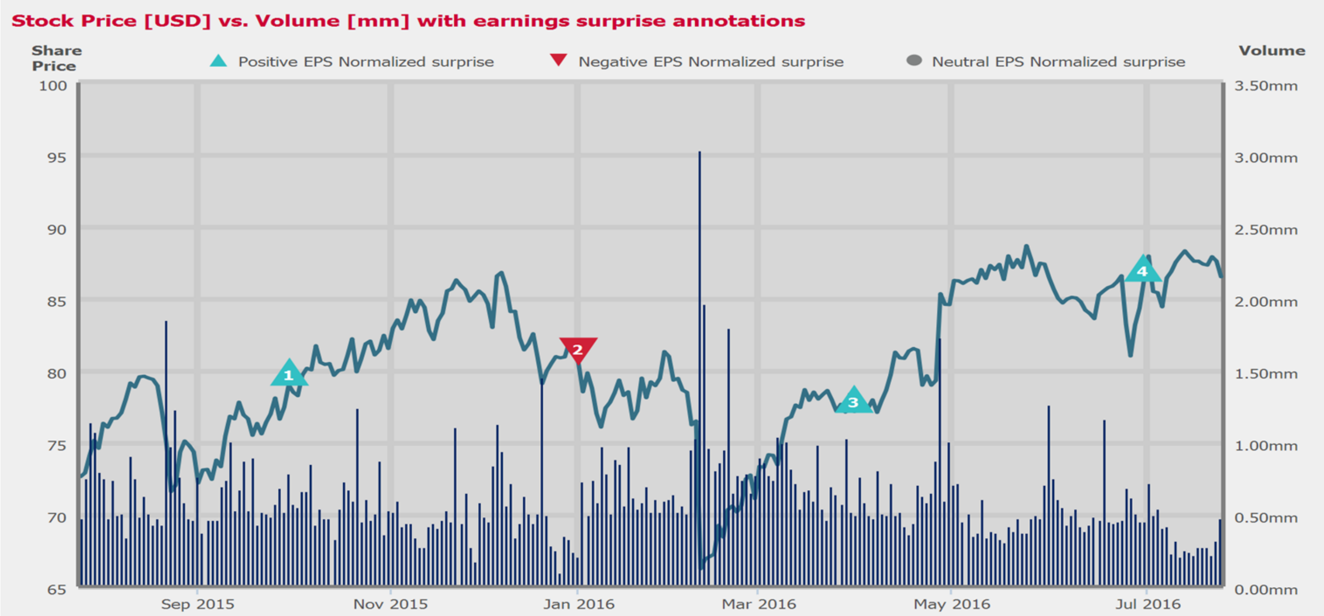
FQ3 2016 Earnings Call Transcripts

Wednesday, October 26, 2016 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.98	1.00	▲2.04	0.35	4.91	6.59
Revenue (mm)	1760.60	1834.17	▲4.18	1808.84	7324.82	7061.13

Currency: USD
Consensus as of Oct-26-2016 12:35 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	1.57	1.71	▲8.92 %
FQ4 2015	1.55	0.97	▼(37.42 %)
FQ1 2016	1.21	1.52	▲25.62 %
FQ2 2016	1.35	1.42	▲5.19 %

Call Participants

EXECUTIVES

Alan B. Colberg
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Suzanne Shepherd
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Presentation

Operator

Welcome to Assurant's Third Quarter 2016 Earnings Conference Call and Webcast. [Operator Instructions]

It is now my pleasure to turn the floor over to Suzanne Shepherd, Vice President of Investor Relations. You may begin.

Suzanne Shepherd
Vice President of Investor Relations

Thank you, Carol, and good morning, everyone. We look forward to discussing our third quarter 2016 results with you today. Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; and Richard Dziadzio, our Chief Financial Officer and Treasurer.

Yesterday, after the market closed, we issued a news release announcing our third quarter 2016 results. The release and corresponding financial supplement are available at assurant.com. Earlier this year, we revised the earnings release and financial supplement to focus on housing and lifestyle.

Net operating income reflects contributions from our operating segments: Assurant Solutions, Specialty Property and Corporate as well as interest expense. Operating results exclude Assurant Health runoff operations, the amortization of deferred gains from dispositions and other variable item. We believe these changes provide a more meaningful representation of our financials and better reflect our go-forward strategy.

On today's call, we will refer to other non-GAAP financial measures, which we believe are important in evaluating the company's performance. For more details on these measures, the most comparable GAAP measures and a reconciliation of the two, please refer to the news release and financial supplement available on assurant.com.

We'll begin our call this morning with prepared remarks before moving to Q&A. Some of the statements made today may be forward-looking and actual results may differ materially from those projected in these statements. Additional information on factors that could cause actual results to differ from those projected can be found in yesterday's news release, as well as in our SEC reports, including our 2015 Form 10-K and first quarter Form 10-Q.

Now I will turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Suzanne, and good morning, everyone. Overall performance for the third quarter was disappointing and fell short of our expectations. As we announced last week, the year-over-year decline in earnings was driven by increased catastrophe losses as well as lower than expected mobile results. However, we don't believe this quarter is reflective of the long-term potential of our housing and lifestyle offerings.

Throughout this year, we've implemented the critical building blocks of our transformation. We've done so, first, by ensuring we're focused on the most attractive housing and lifestyle markets, where we can achieve leadership positions and generate attractive returns. And second, by implementing a more integrated organizational framework that will enable us to become more efficient and effective.

Starting with lifestyle, mobile and the broader connected living market offer attractive opportunities for growth. So far in 2016, we've added new partnerships and expanded our fee-based offerings across distribution channels. We're also taking steps to expand margins over time by ensuring we have the appropriate platforms and cost structures in place across our operations worldwide. Critical for this is a more robust technology infrastructure that maximizes our global capabilities.

Together, these actions set a stronger foundation for future profitable growth. While we no longer expect solutions net operating income to increase this year, we remain confident that we have the right strategy, business mix and capabilities to deliver 10% average annual growth and net operating income over the long term.

Turning to housing. We've invested in the transformation of our lender placed platform to further strengthen our leadership position in this important market. Just this quarter, we added a total of 2.7 million loans from 2 new clients and the block of loans we announced last quarter. We believe these wins demonstrate our clients' recognition of our strong platform, compliance processes and superior customer service.

The severe flooding in Louisiana and Hurricane Matthew are reminders of the importance of our products to homeowners across the country. Our commitment is brought to life by the rigor and dedication of our employees as they assess damages and pay claims as promptly as possible. To date, on behalf of Louisiana homeowners, we processed more than 2,000 claims with an over 95% completion rate. In addition, we also helped to administer claims for the National Flood Insurance Program as its second largest administrator.

Just this month, Hurricane Matthew inflicted severe flooding and wind damage, particularly in parts of Georgia, the Carolinas and the Caribbean. Our claims field adjusters were again on site shortly after the hurricane passed through these regions to assess damage and begin processing claims. While it's still very early, we estimate losses from Hurricane Matthew could total up to $70 million after tax. This estimate is still preliminary, and we will update the market as we have a more complete view of the impact.

The wind down of Assurant Health is moving along as scheduled and represents another key aspect of our portfolio realignment. In the third quarter, we took an additional $189 million in dividends from health. These dividends, along with capital releases from the sale of employee benefits, give us the added flexibility to return capital to shareholders and invest in housing and lifestyle markets where we can outperform long term.

In 2016, we also took several steps to transform our organizational model worldwide, focusing on both functional areas and our lines of business. We've now set the foundation for a global business unit structure under the leadership of Gene Mergelmeyer as our Chief Operating Officer. We're also realigning our technology, risk, strategy and finance organizations and expect to have that work completed by year-end. As part of that effort, Richard and the finance team are also evaluating our financial reporting framework. We expect changes to be implemented early next year.

Our work to transform Assurant and build a strong future is on track. As we look ahead to 2017, our focus will be on profitable growth. To accomplish this, we'll continue to offer innovative products and services to meet consumer needs as well as completing the rollout of our new operating model to enhance efficiency across our global operations. And we'll continue to prudently deploy capital and maximize returns.

Progress will be measured against 3 key financial metrics: net operating income, operating earnings per diluted share and operating return on equity. All of these metrics exclude reportable catastrophe losses given the inherent volatility of weather. Through the 9 months of 2016, net operating income decreased by 14% to $308 million, primarily due to the expected decline of underplaced, the loss of the tablet program and lower contributions from legacy businesses.

Operating earnings per diluted share declined 6% to $4.89 driven by the factors I noted earlier. As we execute our transformation, we expect to grow net operating income and deploy capital prudently to support average annual operating EPS growth of 15% over time. Annualized operating ROE, excluding AOCI, was 11.3%. Expansion of our fee-based offerings will be an important driver to achieve our goal of 15% operating ROE by 2020.

At the end of September, holding company capital totaled $875 million after returning $783 million to shareholders through the first 9 months of 2016. This return represents more than half of our commitment to return $1.5 billion of capital through dividends and buybacks by the end of 2017. While there is more work to do, we believe our attractive business portfolio, combined with a more efficient operating structure, will produce more predictable, more diversified earnings that will continue to generate strong cash flow.

I will now turn the call over to Richard to review results for the quarter and the outlook in greater detail. Richard?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Thanks, Alan, and good morning, everyone. Let's start with solutions, which reported earnings of $43 million. As Alan said, this was below our expectations for the quarter. Excluding a $4.5 million tax benefit in the prior year period, earnings were down $5 million. The decrease was due to lower-than-expected contributions from mobile and the anticipated declines in legacy service contracts and domestic credit insurance. Specifically, core mobile results were down by nearly $6 million year-over-year, largely driven by $3 million of higher technology expenses to modernize certain systems.

We also realized lower mobile repair and logistics volumes as customers upgraded or traded in significantly fewer phones this quarter. Declines in legacy businesses accounted for another $3 million. These factors were partially offset by $3 million of higher real estate joint venture income.

Turning to revenue. Solutions' top line increased by 3% from the prior year period, primarily reflecting fee income, growth from new mobile subscribers. Premiums were also increased slightly year-over-year. Growth from vehicle service contracts was tempered by declines from certain North American retailers and our domestic credit business. Foreign exchange was also a factor, given the depreciation of the British pound and the Argentinian peso.

For the full year 2016, we've revised our outlook and now expect Solutions' earnings to decline modestly from 2015. While fundamentals in our mobile business are promising, in 2016, we no longer expect growth from new and existing programs to offset declines in legacy businesses nor the loss of the tablet program. We are taking steps to help improve Solutions' performance in 2017, including more rigorous expense management, to generate profitable growth.

Let's now move to Specialty Property. Earnings decreased $43 million to $45 million. This is primarily due to 2 factors. The quarter included $33 million of reportable catastrophe losses from flooding in Louisiana. The remaining $10 million related to ongoing normalization of lender placed. As a result of the catastrophe losses, the combined ratio for our risk-based businesses increased 12 points to 92%. Absent cats, the combined ratio was flat year-over-year, as lower general expenses helped offset declining lender-placed premiums.

Our fee-based capital light offerings that comprise multi-family housing and mortgage solutions generated a pretax margin of 9.7%. This was down 5.5 points from the prior year period. The decrease was mainly driven by higher expenses needed to support growth in our field services and valuation businesses. While we believe we've grown revenues well in excess of the market, we do need to drive greater operating efficiencies across our mortgage solutions platform to deliver our margin target of 15% to 20% by 2020 for all of the property fee-based capital light offerings.

Turning to revenue. Net earned premiums and fees in Specialty Property decreased 3%, primarily due to lower placement in premium rates and lender placed, while multi-family housing and mortgage solutions increased by 16%. Diving deeper, multi-family housing revenue increased 10% from the prior year period. This reflects a higher volume of renters' policies sold through our affinity channels and increased penetration rates across our property management network.

For mortgage solutions, fee income was up 22%, including the July acquisition of American Title. Organic growth in the quarter totaled 7% due to greater production from valuation services. Our 2016 outlook for Specialty Property is unchanged. We continue to expect lower revenue and profits, primarily reflecting the normalization of our lender-placed business. As Alan noted earlier, catastrophe losses from Hurricane Matthew will impact our fourth quarter results.

Looking ahead to 2017, we anticipate a continued decline of lender-placed revenue and earnings as we move closer to a normalized steady state. The 2.7 million loans onboarded this quarter are expected to produce modest premiums next year, though not enough to offset the overall declining lender-placed market. We also expect ongoing expansion from our fee-based capital light offerings to account for a larger proportion of Specialty Property's results.

Turning now to health run-off operations. Results were slightly better than anticipated. The $2 million loss in the quarter reflects a slight reduction in estimated recoveries from the 2015 risk mitigation programs, which were offset by favorable claims development. Results also included some severance related costs as well as other indirect expenses not included in the premium deficiency reserve. Year-to-date, we received $378 million in reinsurance and risk adjustment payments related to the 2015 Affordable Care Act policies. As of September 30, around $99 million of net receivables remained on our balance sheet. We expect CMS to remit the payments for these outstanding balances in 2017. So far this year, we've brought up $338 million to the holding company in dividends from health. We continue to expect to receive approximately a total of $475 million. Of course, the timing will depend on regulatory approval.

Moving to corporate. The loss for the quarter decreased $9 million to $17 million. This was primarily due to lower taxes and employee benefit costs. For the full year, we still expect the corporate loss to approximate $70 million. Throughout the year, we've taken steps to increase efficiencies in corporate, such as freezing our pension plan. We also recognize the need for some additional investments to support our transformation, some of which are expected to flow through corporate in 2017. We will provide more details on our 2017 outlook for all of our operating segments on the fourth quarter earnings call in February.

Moving on to capital. We ended the third quarter with $625 million in deployable capital at the holding company. We received $418 million in total dividends in the third quarter. $339 million of dividends from capital previously supporting the employee benefits business and health run-off operation, $79 million from Solutions and Specialty Property.

Our strong cash flow generation during the quarter allowed us to do 2 things: We returned $266 million to shareholders through share repurchases and dividends, and we invested $11 million in emerging technologies in the mobile and rental value chains. In the first 3 weeks of October, we bought back an additional 742,000 shares, bringing the total number of shares repurchased year-to-date to just over 9 million.

So to summarize, while the results were disappointing, we remain committed to executing our transformation strategy to realize our potential to ensure long-term profitable growth in housing and lifestyle. Finally, I do want to thank those of you who I've had a chance to meet over the last couple of months at Assurant. I appreciate all your input and support. It's made my onboarding into the company both smooth and productive.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Michael Kovac from Goldman Sachs.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

I was hoping you could provide some more granular insight into what's going on or what happened in mobile in the quarter. It sounded like there were a couple of moving pieces in terms of, in part elevated expenses, and in part some mix shift between either warranty, upgrades or repair and logistics revenue. So I'm wondering if you could sort of give us more detail in terms of -- if that is in fact the case. And then a sense of how the revenues for each of those different businesses make up sort of the overall pie of what is considered mobile in your reporting.

Alan B. Colberg
President, CEO & Director

All right. Well, let me start, and then I'll ask Richard to provide a little more detail. Clearly, it was a disappointing third quarter for us in mobile. However, it's not reflective, we think, of the long-term potential. And if you look at the quarter at a high level, the positive was continued growth in subscribers, so people signing up for our programs and the handset programs. The real negative in the quarter, other than the IT, which Richard will talk about, was we just had lower trade-in volumes, where people are not -- they didn't trade in as many phones for either an upgrade or a claim or whatever it might be. And that really varies a bit quarter-to-quarter depending on our client programs, what's going on with competition, timing of new phone introductions, availability. So disappointing, but I think forward progress, but you want to go a little deeper on the quarter, Richard?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Sure. And good morning, Michael. Yes, to peel it back a little bit and really to go over what I've just mentioned in my remarks, if we look year-to-year, Q3-Q3, we're down about $9 million. If you take off the previous year tax, that leaves us to about $6 million. And within that, as Alan said, we were down about $3 million, let's say, for repair and logistics. And again, this is -- we were just touching fewer phones, fewer trade-ins of those phones. In addition to that, as I mentioned, there were some higher IT expenses. I mean, we are investing in capabilities. We are becoming more agile. We're looking longer term with the business and trying to become more variable, have more variable expenses. So that was one part of it. There's also increased expenses from our legacy business or continued expenses, I guess I should say from our legacy business which was offset a little bit from some real estate JV income.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

Okay, that's helpful. And sort of following up on the expense item there, it sounded like in the prepared remarks, there's -- sort of a focus in 2 parts, one, on improving the expense efficiencies; and two, maybe some upfront costs in terms of improving the actual underlying technology. Can you give us a sense of your expectation for where you are in that process? Is this a event that's already begun or should we expect elevated expenses in 2017 relative to 2016? And also, a sense of where the geography of those may fall. It sounded like somewhere in corporate relative to either solutions or property.

Alan B. Colberg
President, CEO & Director

Michael, there -- I think there are several questions in there, so let me try to hit them, and if I miss anything, please follow-up with me. I mean, first of all, if I step back and look at Assurant overall, we're in the middle, as we've talked about, of a multiyear transformation to really reposition this company, addressing the lender-placed normalization and putting us very focused on growth markets and growth opportunities in housing and lifestyle. And if you look at 2016, I think a lot of forward progress on that. We've largely completed the repositioning of the portfolio with benefits closed and most of those proceeds now up to the holding company, the health wind down more now complete than not. And the other critical thing we did this year was to realign our organization which will create the opportunity to really take out effectiveness or improve effectiveness and improve our cost structure over time. If you think about mobile specifically, one of the ways we've been gaining share, and we've been gaining share now for multiple years. If you look at this business, it is dramatically bigger and stronger today than it was 3 years ago. The way we've gained that share is investing in capabilities, so that's kind of ongoing. This quarter, we had a little bit more than we expected. We made some decisions to continue to invest in technology around things like automating some of our processes, trying to better align our cost structure with some of those variabilities and volumes. And so again, on '17, we'll provide a outlook for '17 in February as we always do with our fourth quarter earnings, but at a high level, that's how I think about what's going on.

Operator

Your next question comes from John Nadel from Crédit Suisse.

John Matthew Nadel
Crédit Suisse AG, Research Division

So I think the commentary around the year-over-year impact for mobile, I think, is helpful, but I'm really more interested, and I think most of the folks who I've spoken with since your pre-announcement are more interested in what the driver is of the shortfall in 3Q results relative to your own expectations for the third quarter and why your guide for the full year seems to anticipate that the pressure in the third quarter persists into the fourth quarter. And I -- so I guess, I'd -- if there's anything you can do to sort of focus more on that because just last quarter or maybe a quarter before that, you had really had an outlook for pretty robust second half of the year and that changed pretty significantly. And so as opposed to the year-over-year, just more of what's happened versus your expectation.

Alan B. Colberg
President, CEO & Director

Yes, really a few things. So let me start with just a comment broadly. As we think about our business and build it over the long term, we do have some quarter-to-quarter variability, just naturally with the size of our client programs and some of the businesses we operate in. But really 3 things were a little bit different than we had expected as we went into the back half of the year in the third quarter. We got good growth out of the new programs that we've announced over the last year or so, but a little bit less than we expected and that was a shift that began to develop and play out in the third quarter. The IT expenses, really choices we made. As we looked at our spending, we made some decisions to invest more in certain areas because we saw opportunities to deepen and expand capabilities we think positions us for the long term. That was a choice we made in the quarter. And then we were a little bit surprised, as the whole industry was, on the decline in trade-in activity in the third quarter. That could be just a function of people waiting for the new phones to come out, some of the noise in the market around some of the introductions that happened in August and September. But fundamentally, if we take a long-term view on this business, if you think about, I'm going to talk about Solutions now, we put out in 2013 a goal that we could grow net operating income on average 10% per year in that business, not linear, and we reaffirmed that in '15. Certainly, since 2013, we've more than achieved that goal. Obviously, in 2016, we're disappointed with what we are, but it doesn't change our longer-term outlook that we have had great momentum in this business, we continue to invest and we feel very well positioned for continued growth in Solutions and in mobile.

John Matthew Nadel
Crédit Suisse AG, Research Division

But do you think, Alan, do you think, for example, the foregone trade-in activity in the quarter that maybe was part of the reason for the shortfall. Do you think that's just a delay and it's something we ought to think about getting back and sort of then some? Or do we think about that 10% average annual growth off of this new sort of lower baseline of earnings?

Alan B. Colberg
President, CEO & Director

So we put out that 10% originally in '13, we reaffirmed it in '15. So I think as you think about the long term for this company out to 2020, think of it off of 2015. But you can't think of it as annual guidance. It's not. And as we add programs, that will cause step function changes in our performance. But again, quarter-to-quarter, you get some variability.

John Matthew Nadel
Crédit Suisse AG, Research Division

Okay, okay, that's helpful. And then just on the lender-placed side, a couple of quick ones there. So the placement rate -- I believe you said that the placement rate on the newly acquired 2 million loans this quarter is lower than your overall block. Is it enough so to alter your view of the steady state expected range of I think it's 1.8% to 2.1%? Or should we think of it as just maybe pushing you down a little bit further within that range?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

No. John, it's Richard. I think as we said, it is a small block relative to the total blocks, so even though the penetration rate will be lower on this new piece, we still are looking at the longer term between [indiscernible].

Alan B. Colberg
President, CEO & Director

Yes, and John, just in lender placed, the normalization, as we've been saying, we expect to continue through '17 and getting more toward the long-term run rate in '18. The positive of adding these loans is it's just another market validation of how our clients view our compliance, our customer service, the quality of our operating model. But it doesn't change our view on the normalization. We've got another year or so to work through in '17.

John Matthew Nadel
Crédit Suisse AG, Research Division

And -- sort of the follow-up question on lender place that I had was just to talk about premium rates. I mean, how -- as we think out to '17, I mean, you talked about a continued decline in revenue for LPI and some of that's obviously got to be a continued downward move on the placement rate. But is there still more to come on the actual premium rate? And if so, about how much would you expect looking out?

Alan B. Colberg
President, CEO & Director

So as we think about it, and I've said this in prior quarters, we now think the rate filings are normal course. We've worked through that process with all of our states. We're on a regular basis. We refile with many states annually, and we -- I think it's just normal course based on experience, based on market factors in those states. Really, the bigger driver of the normalization is the reset of the placement rate gradually to the long-term average.

Operator

Our next question comes from Seth Weiss from Bank of America.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Just wanted to ask, I guess, first, a question on health and think about the excess capital position as I work through the math there. I know you had $475 million, you expect to upstream, of which I believe you've done about $340 million, so there's, call it, $135 million, $140 million left there. If we think about the $99 million of net reimbursements from CMS that sits on your balance sheet, should that be additive to that $140 million that I just calculated?

Alan B. Colberg
President, CEO & Director

No, Seth, it should not. We anticipate that, as we think about the capital, we're going to be able to take out of that business.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay, great. And had just one follow-up on Solutions and just trying to, I suppose, parse your language here. And I understand the quarterly variability of the business, and I know we've seen that in quarters past, specifically the end of 2015 and then had some strong bounce back quarters in the first half of this year. Alan, in response to the last question, you talked about the 3 things that came in a little bit lower than expected, which seemed mostly to be aspects that looked more unique to the quarter. What I guess I'm a little bit confused about is that the updated guidance suggests a lower run rate for the fourth quarter than maybe the guidance prior to did for the fourth quarter. So it sounds like your expectations on a go-forward basis have been moved down as well, but I'm just curious if I'm reading that right or if I'm perhaps interpreting the guidance wrong here.

Alan B. Colberg
President, CEO & Director

So the way to think about this is the things that happened in the third quarter, some of those persist into the fourth quarter, like the new programs still ramping, but they were behind where we thought they were going to be. And although they're improving, they're still behind where we thought they were going to be, and we continue to make investments. It doesn't change our longer-term view, but as we thought about this year, we -- that's why we've revised the outlook for this year.

Operator

[Operator Instructions] Our next question comes from Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

I had a few questions. First on, just your expectations for buybacks in 2017 and '16. It seems, like in the past, you've slowed buybacks in the third quarter, this year that didn't happen. So should we assume that you speeded up the buybacks because you got the cash through the holding company faster? Or are you actually assuming that you could do more in buybacks than you might have thought maybe a few quarters ago?

Alan B. Colberg
President, CEO & Director

So the way we've thought about this, and I'll start, and then Richard you certainly should chime in. We want to be in the market consistently. Particularly this year, where we've had the capital position we've had. If you go back a few years, when we didn't have as much excess capital at the holding company, we would slow buybacks in the third quarter. We saw no reason to do that, so we have remained in the market consistently. And as I said, in my remarks, we're about a little more than halfway through now returning that $1.5 billion we committed during 2016 and 2017 to shareholders.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

So that hasn't changed, that $1.5 billion?

Alan B. Colberg
President, CEO & Director

No, that has not changed.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And then if I think about what you did in October, it seems like the average price was around $89, so a majority of the buybacks were done prior to your pre-announcement. Why did you decide to do that, and why not just wait till -- you knew it was going to be a bad quarter, just wait till after the announcement came out and then buy after?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Yes, Jimmy, it's Richard Dziadzio. Thanks for the question. Really the reason is, when we look at the stock price, we're actually looking more at the intrinsic value of the company, not the daily stock price. And also, when we are out in the market buying, we are using our 10b5-1. So we're out in the market [indiscernible] at least in the last quarter consistently.

Alan B. Colberg
President, CEO & Director

Yes, Jimmy, the important point there is, we continue to believe our stock is attractively priced. And as Richard said, the way we buy back our stock generally is through 10b5-1 programs we file in advance, and they run and we can't really amend those easily if they're running.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And then just lastly on the mortgage solutions business, that was actually a big positive this quarter, and obviously, you've added acquisitions there that have helped. Just thinking about the run rate for growth in that business, should we expect growth to slow down as the comps get tougher and some of these businesses that you've bought circle through a whole year? Or do you think the business can grow at a double-digit pace over the next year to 2 years?

Alan B. Colberg
President, CEO & Director

So on mortgage solutions, what we're encouraged by is our thesis is playing out. Our thesis was that we had unique advantaged opportunities, leveraging our partnerships with mortgage companies, and that's played out well, and you've seen the very strong organic growth we've had so far. We see no reason why that can't continue. Our market shares are still very modest. We're focused on really now translating that growth from the top line, which we think is going to continue, to bottom line. And we've said, we think we can get to 15% to 20% pretax margins long term over not only mortgage solutions but all the capital fee light -- capital light fee income businesses and property. But no, we're encouraged by the growth in that business. Just as an aside, we just hired a leader to come in and integrate those businesses together. We've now acquired 4 different companies and really allow us to continue the momentum there.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And just to clarify, since you're buying using 10b5 plans, should we assume that there are any blackout periods? Or can you buy -- do you intend to buy throughout the quarter?

Alan B. Colberg
President, CEO & Director

Well, no. Just to clarify, we put in the 10b5-1 when we're not in a blackout and then they just run.

Operator

Our next question comes from Mark Hughes from SunTrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

To approach the mobile question another -- from another vantage point, the new business that you brought online, did you have good visibility in terms of the historical behavior of these subscribers? Is there -- could it just be that these -- this subscriber base of these new clients just don't have as much activity, underlying activity as you might have expected, and so therefore, you should adjust your expectations accordingly? Or do you have good information on the historical behavior, and so you can confidently say this is just normal variability?

Alan B. Colberg
President, CEO & Director

The answer is some of everything you said. So some of the new programs are truly new to the market. So we worked with a partner to try to estimate what we think the penetration rates will be, the take-up rates, but when they're new to the market, everybody is trying to make their best estimate. Some of them are new programs with existing customers. That's easier for us and them to predict. But that's part of -- if you looked at the last year, 1.5 years, we've announced several new programs with new customers. Those are the ones where it's hardest for them and for us to predict what's going to happen.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

And in those cases, seeing the volume that you do, are you able to adjust your expense structure if, in fact, the take rate is lower than you might have originally forecasted?

Alan B. Colberg
President, CEO & Director

Something we're working on. I mentioned briefly earlier that as we think about business, for example, like repair and logistics, which can have big swings in volume up and down in a quarter, we are working to better align our cost structure with that. A lot of the automation we've been doing and investing in is to create a better alignment there.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Any thoughts on how those programs have been performing here early in the fourth quarter?

Alan B. Colberg
President, CEO & Director

No. It's too early for us to provide any outlook on the fourth quarter other than what we said for the full year of '16.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

And then in the capital light property business' margin there, you've talked about making investments that has put pressure on the margin. Is that something that is short term in nature? Or is this kind of structurally, you're at 9% or 10% then it'll move up over time? Or is there a step function out there somewhere in the near to medium term that, that should bounce back more meaningfully?

Alan B. Colberg
President, CEO & Director

So Mark, the way I think about this, we're early in those businesses. We've now been in them for 2 to 3 years. If you compare to a quarter a year ago, we were at about 15%, I think is what we had at that quarter, maybe a little more. And so as we build this business out, we're getting some fluctuation, but it doesn't change our long-term view of 15% to 20% pretax margin.

Operator

Our last question comes from Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I had a question on flood insurance. I know you have the lender-placed business, you have the NFIP administration, but you also have a small start-up voluntary flood business. I just wondered if you could go over how that fits in and what your overall strategy for flood generally is over the next few years.

Alan B. Colberg
President, CEO & Director

So first of all that voluntary flood business is very small. We think of it as a pilot. And really, what we're trying to do there is thinking about a couple things. So we have a very strong position in flood, right? We're the #2 administrator in the NFIP program. For our clients in mortgage, we do a lot of lender-placed flood, and we've been experimenting with gaps in the coverage of the NFIP program, a potential evolution of the NFIP program. So think of it as just a pilot for us to learn more about how the flood market might evolve, how consumers might react. We view flood though as an important business for us, and we just want to make sure we remain one of the market leaders as it evolves. But it's very small, that voluntary flood business right now.

Gary Kent Ransom
Dowling & Partners Securities, LLC

If you -- do you use the data that you collect from all the NFIP business? Is that -- does that help you or inform you on how to underwrite the flood business as you go forward on the voluntary side?

Alan B. Colberg
President, CEO & Director

We have lots information from various sources from our lender-placed business, from the flood maps that are out there. We work with multiple third-party providers on flood and flood risk. All of that goes into our thinking. And then we have a history, a long history of our own data to use.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. And just one other question on the mobile side. Did the -- all the Samsung issues, did that have some direct or indirect impact on what you saw in the quarter?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Mark -- Gary, it's Richard Dziadzio. Not really. Not really. I mean, it was a new program under warranty, so no, it was a recall. So...

Alan B. Colberg
President, CEO & Director

Yes. It's under manufacturer warranty, just to be clear, right. So that's why the risk there was the partner, not us.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Well, that's why I was thinking maybe indirect because they're not coming anywhere other than the manufacturer, but that's fine if you don't think it had an impact.

Alan B. Colberg
President, CEO & Director

No, no material impact.

Well, everyone, thank you for participating in today's call. We look forward to updating you in February on our progress. And as always, you can reach out to Suzanne Shepherd with any follow-up questions. Thanks, everyone.

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Thank you.

Operator
This does conclude today's teleconference. Please disconnect your lines at this time and have a wonderful day.