S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

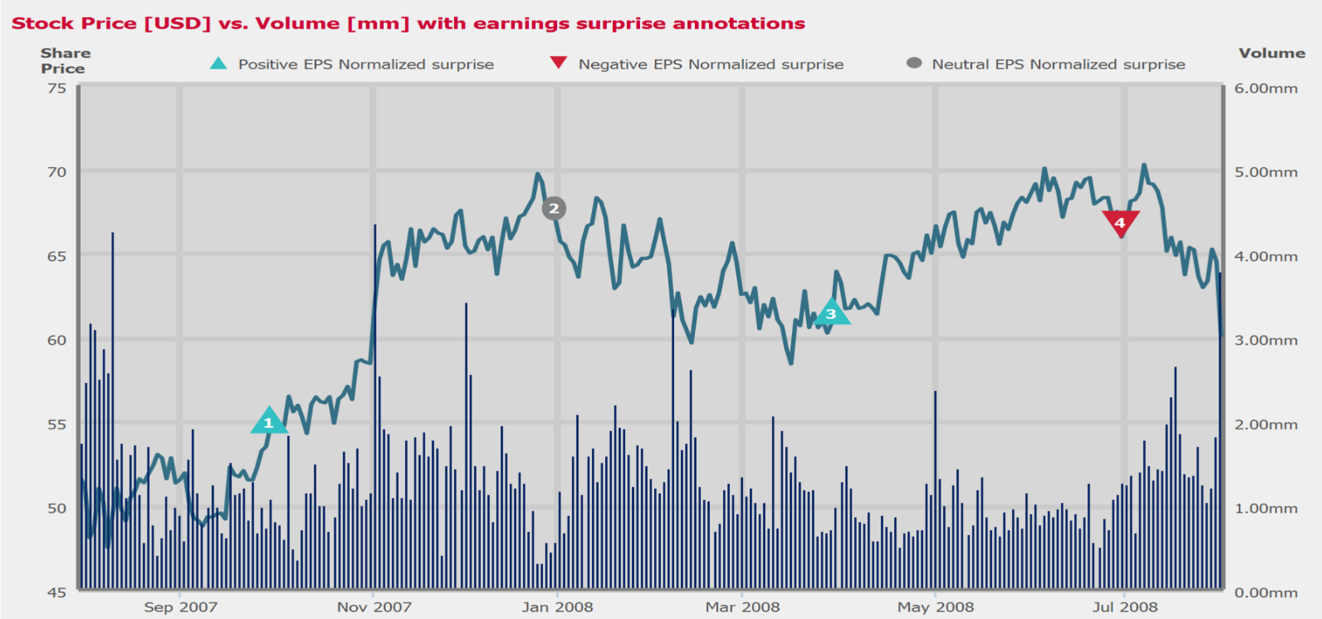
FQ3 2008 Earnings Call Transcripts

Thursday, October 30, 2008 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2008-			-FQ4 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.87	0.70	(19.54 %)	1.60	5.90	7.11
Revenue	-	-	(1.23 %)	-	-	-
Revenue (mm)	2281.85	2253.74	-	2374.06	9077.98	9780.66

Currency: USD
Consensus as of Oct-30-2008 7:22 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2007	1.28	1.63	26.36 %
FQ4 2007	1.29	1.29	0.00 %
FQ1 2008	1.51	1.80	19.21 %
FQ2 2008	1.63	1.55	(4.91 %)

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Call Participants

EXECUTIVES

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Donald Hamm

Gene Mergelmeyer

Melissa Kivett

Michael J. Peninger

Robert B. Pollock

S. Craig Lemasters

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Steven Schwartz
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Credit Suisse

Presentation

Operator

Welcome to the Assurant Third Quarter 2008 Financial Results Conference Call. All lines have been placed on-mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]. Thank you.

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

Thank you, operator. Welcome to Assurant's 2008 third quarter earnings conference call. Joining me with prepared remarks are Rob Pollock, President and CEO of Assurant; Mike Peninger, our Interim Chief Financial Officer; and Gene Mergelmeyer, President and Chief Executive Officer of Assurant Specialty Property. I'm pleased to be joined by the other members of our senior leadership team; Don Hamm, President and CEO of Assurant Health: Craig Lemasters, President and CEO of Assurant Solutions; and John Roberts, President and Interim CEO of Assurant Employee Benefit; and Chris Pagano, our Chief Investment Officer and Treasurer.

Prepared remarks will last approximately 25 minutes after which time we will open the call to your questions. This morning we issued a press release announcing our third quarter 2008 financial results. The press release as well as corresponding supplementary financial information may be found on our website at assurant.com.

Some of the statements we make during this call may contain forward-looking information. Our actual results might 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 2007 Form 10-K and subsequently filed Form 10-Q and 8-K, including this morning's earnings release, which all 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 this morning's earnings press release and supplementary financial information posted on our website.

Now, I'd like to turn things over to Rob.

Robert B. Pollock

Thank you, Melissa. Good morning everyone, thank you for joining us today. During a period of unprecedented capital markets volatility and an active hurricane season, Assurant demonstrated resilience and served its customers by staying in the course and executing its diversified specialty strategy. Our business model anticipates hurricane activity and we mitigate risk with a comprehensive reinsurance program.

In comparing results to last year, remember, that both Gustav and Ike were significant storms and we had no report of hurricane activity in 2007. We continue to focus on building long term value for our shareholders, saying that, we are happy to have the third quarter behind us. Assurant is not immune to the volatility experienced in the credit markets or the economy, rest assured we're taking steps to minimize the downside impact with an eye toward maximizing opportunities that may develop to better position the company moving forward.

Before I provide an overview of the businesses, let me began by reviewing our conservative investment philosophy and our solid capital position. The investment portfolio experienced losses due to sales and impairments on certain issuers. Rising credit spreads led to significant increase unrealized losses. Our losses are consistent with the performance of the overall credit market and the portfolio remains fundamentally solid.

Going forward, there are several reasons we believe our portfolio is well positioned to weather the current market volatility. First, we have little exposure to many of the asset classes that have contributed to the ongoing credit crisis. For example, we owe no credit default swaps; second our mix of business is dominated by non-callable liabilities. Reducing the risk that we have to sale assets at today's market prices. And third, our asset leverage is low in comparison with traditional life insurance companies. This quarter we've introduced additional disclosure on our investment portfolio in our financial supplement. We believe that high rates are conservative investment philosophy.

Turning to our capital position, we began the year with $250 million of excess capital. We believe we'll end the year with about $200 million of excess capital. This estimate does not include fourth quarter activities such as acquisitions, hurricanes or change in credit markets. It does reflect changes in dividend capacity related to portfolio losses through October 24th.

Our capital management strategy will continue to follow the course we have chartered for you. That is we will use our excess capital to make acquisitions or return it to our shareholders in dividends or the repurchase of our shares. Our diversified businesses continue to generate earnings that provide dividend capacity after meeting any requirements to support their growth.

In addition to our excess capital, our low debt to capital ratio provides us additional flexibility. Recent marketing conditions contributed to our decision to complete acquisitions with cash. But future acquisitions could be financed, and our balance sheet can support a higher debt to capital ratio. Like others, we hope the credits spreads return to historical norms or at least closer than are today.

Our revolving credit facility and our commercial paper program has been used, but provides $500 million of capacity. So although we're currently in an excess capital position, we continue to evaluate all auctions, so we maximize our capital flexibility as the market and opportunities evolve.

Now let me provide some color on this quarter's business results. In Solutions despite the pressures of the retail environment, net earned premium continue to grow for this quarter and nine months. Earnings for the quarter were below our expectations due to less favorable loss experienced domestically and internationally. The global economic environment is translating into a slowdown in the sale of goods to which we can attach a service contract. We are working hard to softening the impact of this trend by acquiring new clients and helping current clients increase sales.

This quarter we announced two acquisitions in areas we've targeted for growth within solutions. The acquisitions of GE's Warranty Management Group and Signal Holdings a leading wireless logistics and repair company, will enhance our competitive positions in the respective markets.

Moving to Specialty Property, our results reflect in active storm season which reduced net operating income. However, employees once again responded quickly and compassionately to the thousands of customers affected by the hurricanes during the quarter. Gene Mergelmeyer will provide a detail review of Specialty Property this quarter and outlook shortly.

At Assurant Health, we continue to operate in a challenging environment. Historically, the individual market is growing when people loose coverage under group plans. However, due to the severity of the current economic environment, we have not yet seen a growth in the insured individual medical market. We are pleased that our new individual medical product portfolio has been well received as demonstrated by our individual medical sales increasing over the second quarter.

We continue to focus on improving the strength of our comprehensive product portfolio and extents of distribution capabilities. We were very pleased to announce a new 10 year contract with State Farm for exclusive distribution of Assurant's individual and short-term medical products.

Assurant Employee Benefits delivered strong results and continues to build momentum by delivering value in the small employer benefits market. Despite the economic slowdown employee benefits experienced favorable loss experience and good persistency. We are also pleased that premiums excluding the impact of closed block acquisitions have increased over 2007 levels in each quarter of 2008.

So in summary, despite a challenging quarter we demonstrated resilience enabled by our diversified specialty strategy. We continue to focus on building long-term value for our shareholders.

I will now turn the call over to Gene Mergelmeyer to discuss Specialty Property. Following Gene, Mike Peninger will review our other businesses for the quarter. Gene?

Gene Mergelmeyer

Thanks Rob and good morning everyone. Our level of net income for the quarter despite the high level of catastrophes demonstrated the value of our risk management expertise and the strength for our differentiated business model. Assurant Specialty Property net and operating income was $30.9 million for the quarter. Results were driven by an active hurricane season, resulting in $86.2 million after-tax of reportable catastrophe losses, net of reinsurance, from hurricanes Gustav and Ike and $8.6 million after-tax of reinsurance re-instatement premiums.

The decline over prior years was magnified by the fact that 2007 was an exceptionally mild hurricane season. We also experienced related increases in general expenses, including stake catastrophe assessments and increased cost associated with hurricane related services. Underlying results, excluding the catastrophes were strong. Despite hurricane losses of $97.7 million net of reinsurance for the nine months and no reportable cat activity in 2007, net operating income was up 3% to $286.7 million for the first nine months of 2008. As a result of growth in creditor-placed insurance, we've increased our invested assets resulting in higher investment income. The hurricane activity demonstrated the value and effectiveness of our 2008 cat reinsurance program and our core capability of risk management.

Our reinsurance coverage provided for $61 million of recoveries, on an estimated $194 million of growth losses. In addition, the storm activity recorded in the third quarter was sufficient to satisfy the frequency and deductible requirements of the third layer of our reinsurance program. Our catastrophe aggregate reinsurance program will now generally provide first dollar coverage of up to $40 million of claims for each of the next two hurricane events that could result in more than $10 million loss. Obviously we'll hopeful will use this coverage, the hurricane season does run through November 30th, and this demonstrates a comprehensive risk management programs that we put in place.

Let me now discuss the positive result we continue to see from the primary growth drivers. Average insured values rose to $173,000 in the third quarter of 2008 compared $151,000 in the third quarter of 2007 and $170,000 in the second quarter of 2008. This increase was partially driven by an increase in real estate owned premiums, which now represents 23% of our creditor-placed premiums. We continue to see growth in placement rates, with both the prime and subprime penetration rates increasing, or be it at a lower level.

Both remain within the overall ranges we have previously provided namely 6 to 15% for subprime accounts and 1 to 2% for our prime account. Our average policy premium has grown to $1800. This is a very dynamic time in the mortgage market as you know, and we have seen changes in the ownership and consolidation of many service loans.

We estimate that with our strong market position that we'll be able to maintain tracking and placement of over 5 million loans that are currently going through market consolidation. While we did lose a net 130,000 prime loans and 60,000 subprime loans in the current quarter due solely to market consolidation. We strongly believe our alignment with market leaders should continue to position us well in a long run as these services are likely to be in the best position to purchase and originate loans in the marketplace in the future.

Specialty Property's net earned premiums increased 15% for the quarter and 27% for first nine months of 2008, despite additional reinsurance costs of $26.6 million for the quarter and $17.5 million for the year, including the $13.2 million of catastrophe reinsurance re-instatement premiums compared to none in 2007. Gross written premiums in the quarter increased 16% in the third quarter and 22% from the first nine months of 2007 driven by the growth factors that I discussed.

If you are watching our growth trends sequentially, let me point out that that can be variability in both net earned premiums and gross written premiums due to the timing of new clients or loan losses and premiums written or cancellations recorded and the loans are gained and loss. Absent these events, we did sees sequential growth in net earned and gross written premiums consistent with a increase in the growth drivers but at a lower rate than in previous quarters.

The third quarter demonstrated the vital protection provided by our products. We believe that we provided industry leading service on claims resulting from hurricane activity by quickly we responding to and settling claims reported. We have currently closed over 94% of claims related to hurricane Gustav and 90% related to Ike in our credit-placed homeowners insurance. I am very proud of all the Specialty Property and pleased that we were there for our clients and their customers in their time of need.

We continue to monitor and participate in industry discussions on how to help stabilize the mortgage market. While it is difficult to predict the timing and impacts of various changes in government programs that are currently underway, Assurant Specialty Property's unique business model still well positioned. We can benefit from our alignment with industry leaders and are continually to see growth in our business, looking closely with our clients we focus on applying our risk management expertise and leveraging our smart port [ph] technology to bring our client... benefit our clients and their customers.

Now, I would like to turn the call over to Mike Peninger.

Michael J. Peninger

Thanks Gene. In the phase of a quarter characterized by heavy catastrophe losses, Assurant Specialty Property performed well and maintained its leading position in the creditor-placed market. Before I turn to the operating results of our remaining businesses, since portfolio questions are in everyone's mind in the current environment, let me add a few comments on our portfolio to supplement Rob's earlier remarks.

Our new investment disclosure breaks out exposure by issuer in industry type. As of September 30th our investment portfolio had an average quality of A2 and a duration of just over six years. We've maintain the consistent investment philosophy but emphasized as matching our portfolio characteristics with those of our liabilities and have avoided many risky asset categories like credit default swaps.

As of September 30 2008, 98.4% of our financial assets were classified as either Level 1 or Level 2 under GAAP accounting rules which means that they have absorbable market prices and are easily valid. That is consistent with our conservative investment philosophy and adds transparency to our balance sheet.

To further reduce the risk in our portfolio we scale back our securities lending program by nearly $200 billion to $343 million or 2.5% of our investments at September 30th, since the end of the quarter we've continue to reduce the program and are currently stands at about $250 million. Now let's review our consolidated results and the results from each of our other specialty businesses.

Overall net and operating income for the quarter declined by 58% versus the third quarter of 2007 driven primarily by the catastrophe losses in Specialty Properties as Gene discussed. Net earned premiums increased 5% for the quarter compared to 2007 due largely to growth in several of our key targeted growth areas including creditor- placed homeowners extended service contracts and premium. A net loss of $111.4 million for the quarter was primarily driven by net realized losses on investments as well as the catastrophe losses.

At Assurant Solutions net operating income declined by 45% versus the third quarter of 2007 to $20.4 million. Results for the first nine months of 2008 included 0.8 million after-tax of investment income from real estate partnerships compared to $10.2 million after-tax in same period of 2007. The domestic combined ratio rose 380 basis points to 104.7% for the quarter, roughly two thirds of this increase relates to the acquisition of the Warranty Management Group from GE which we purchased during the quarter for a $140 million. In separate transaction GE paid us $115 million for the assumptions of certain contractual obligations arising from our prior relationships.

As a result of these transactions, we acquired intangible assets of about a $126 million established about $15 million of goodwill in our balance sheet and recorded a $7.7 million after-tax charge to third quarter earnings. While we've had excellent working relationships with GE for a number of years, we're very excited about the new opportunities resulting from the Warranty Group acquisition.

We can now work directly with clients and control the underwriting, servicing and administration of the warranties and the long-term GE marketing agreement gives us a strong marketplace presence. By eliminating the commission previously paid to GE we expect to improve our combined ratio on the business which will help drive toward a targeted domestic combined ratio that's in the high 90s.

Internationally, the combined ratio increased 330 basis points to 105.6% in the quarter. 240 basis points of the increase was caused by additional expenses in our developing countries, which increased to $13.1 million compared with $7.4 million in the third quarter of 2007.

Expenses increased due to additional staff hires, systems development expenses and marketing cost to support our local operations. Over $1 million of the increase reflects increased activity in China.

Our international operations faced economic challenges during the quarter that were similar those in the United States. We saw less favorable experience in the United Kingdom in particular driven by deterioration of the economy and spiking unemployment rates. In spite of the economic difficulties in the UK we are pleased to report that the 2007 acquisitions of Swansure and Centrepoint are performing inline with our expectations.

As a reminder, these companies were acquired to extend our presence in the underwriting and distribution of mortgage payment protection and building and content insurance in the UK Integration activity is proceeding faster than we've planned and we have been able to reduce the annual operating expenses accordingly. While sales are down due to economic difficulties our profit expectations are being met and the businesses modestly profitable this year.

The increase in solutions net earned premiums for the quarter and nine months were driven by the continued growth in our domestic and international service contract business and growth in Preneed. Primarily driven by a tough retail sales market including the closing of comp USA stores domestic gross written premiums declined for the quarter and nine months.

International gross written premiums were up primarily due to strong growth in several countries with Canada showing particularly good results. Our acquisition of Signal Holdings which closed in early October, gives us a great opportunity to expand into the wireless market. This is a growing market with only one large competitor and we see where our value proposition is compelling. We purchased this business for $250 million in cash and our finalizing the evaluation of intangible assets acquired. We expect the transaction to be accretive to earnings starting in 2010 and will give you more information on it during our fourth quarter call.

The Signal acquisition demonstrates our ability to strengthen our specialty businesses by deploying our capital in a targeted growth area. The recent acquisitions have strengthen solutions market place position both domestically and internationally in give us the tools to compete successfully even in a slowing retail sales environment.

Assurant Health results this quarter reflect a challenging marketplace. Net operating income was down versus 2007 due to continued premium declines for small group and less favorable loss experienced in individual medical.

Individual medical membership declined 8% from a year ago and was flat from the previous quarter. Loss rates have been slightly higher in a market that looks is always [ph] not expanding coverage. We are pleased that individual medical sales were up 12% over the second quarter, we believe that this increase indicates a positive reception for our new product portfolio which focuses on allowing individuals to take control of their own health decisions.

We believe that one our competitive advantages is our strong national distribution system which reaches more than 165,000 agents. The expansion of our exclusive national alliance with State Farm whose dedicated agents reach one in every four households in the United States will benefit both partners over the long-term. We also continue to gains our direct to consumer capabilities; we have the television commercials and internet advertising and have recently seen sales increase in this distribution channel. We believe that Assurant Health has the risk management, distribution and administrative capabilities to create long-term value for our customers and shareholders in the dynamic healthcare environment.

Assurant Employee Benefits had a solid quarter; results for the third quarter of 2008 improve due to more favorable loss experienced compared to last year. Strong disability and late results were partially offset by less favorable loss [ph] experience. Results for the first nine months of 2008 are down versus 2007 due to lower investment income from real estate joint venture and less favorable loss experience. Investment income from real estate joint venture partnerships declined $9.2 million after-tax in the first nine months of 2008 compared to the first nine months of 2007.

Total net earned premiums decreased for the quarter and nine months, however excluding single premiums from closed blocks of business, net earned premiums increased for the third quarter and for the first nine months of 2008 due to continued strong sales and improved persistency as we focused on our small case strategy.

In corporate and other, the operating loss increased through the third quarter primarily due to $4 million of expenses due to a change in certain tax liabilities along with lower investment income. Changes in tax liabilities in this segment can vary substantially from quarter-to-quarter. We incurred $2.1 million of after-tax expenses related to the SEC investigation during the quarter, however we also received a reimbursement of $2.1 million after-tax for certain previous SEC investigation expenses covered by our D&O insurance policies. Net operating losses increased for the nine months as a result of the decline in investment income and increase of in severance and previously disclosed plan expenses and an increase in expenses related to the ongoing SEC investigation.

Turning next to our balance sheet, our total assets as of September 30 2008 were $25.4 billion and total shareholders equity excluding accumulated and other comprehensive income or AOCI was $4.2 billion up 4% from year end. Book value per diluted share excluding AOCI grew 6% to $35.60. Our debt to capital ratio excluding AOCI was 18.9% versus 19.7% at year end 2007. Our ratio of investment assets excluding cash and equivalents to shareholders equity including AOCI an important measure in the current climate is 3.421.

In summary, this was an extremely challenging quarter, while the challenges are not likely to abate quickly they also offer significant opportunities. We will continue to take steps to minimize our risk while maximizing performance as we execute our specialty business strategy, which will deliver strong results for our shareholders over the long-term.

Now I would like to turn things back to Rob to open the floor for questions.

Robert B. Pollock

Thanks Mike. Operator we're ready for questions.
Question And Answer

Question and Answer

Operator

[Operator Instructions]. And your first question comes from the line Jukka Lipponen.

Jukka Lipponen
KBW

Good morning.

Robert B. Pollock

Good morning Jukka.

Jukka Lipponen
KBW

A couple of questions, I am sorry if I missed that I have to step out the call for a second but in solutions, the expenses in your developing countries so can you review how high were you running and how much high in sort of the normal run rate?

Michael J. Peninger

Yes, they were 13 million... $13.1 million Jukka and I talked in my comments about system expenses and we're adding staff in those countries and in marketing and in particular the expenses in China increased during the quarter because we're gaining some traction there I'll maybe let Craig add some fundamentals over there.

S. Craig Lemasters

Jukka that compares a year ago third quarter to $7.4 million, I believe $10.1 million last quarter, and I talked about in the past one of our challenges as we expand in new countries its really the timing of our expense and our stands are really gear up for business versus that business coming on and that's what you're seeing now. So a lot of this is revolver a good news, where we see opportunity in some of these developing countries and are adding staff more quickly now and as Mike said spending money to get system work finalize. And then the final piece of it is the incremental spend in China and again that's all around the fact that we can gear up in the service contract business faster with re-insurance license which will still take some time. So we're really gearing up here for the services business in China.

Jukka Lipponen
KBW

And Gene the loss ratio Specialty Property after-tax moved up a few points sequentially, can you give us some color on what was going on there?

Gene Mergelmeyer

Sure Jukka. In addition to the reportable cats this was a pretty active season in general. So, I'll remind you that we also had some smaller storms like Dolly, and say and actually some other isolate Ike [ph] or so related activities that could probable non-cat reportable cat loss ratio of business well.

Robert B. Pollock

And the other thing to just mentioned is that... new more... or denominator excuse me, you got it has been brought down because of the reinsurance re-instatement premiums we paid.

Jukka Lipponen
KBW

And lastly what's the current excess capital position and can you give us an update on you had previously talked about A.M. Best reducing the capital charge for growth but you're going to look at that sort of once we get a better handle on the cats?

Michael J. Peninger

Sure. I covered a bit of this in mine Jukka, but in absence what we said as we anticipate will end the year with slightly over $200 million in excess capital. I believe that in those numbers we reflected activity that's taken place on the acquisitions today and we've also tried to reflect issues around dividend capacity related to the realized capital losses actually through last Friday. Chris you want to expand on that little bit?

Christopher J. Pagano

Well, yeah Jukka the... as you can imagine not only was the third quarter the worst quarter for the bond market in 20 something years but its become its no less challenging sense than and what we're attempting to do here is make sure that we reflect that in the dividend capacity some of the entities. We're saying that your comments about property based on a conversations with A.M. Best and discussion of how to appropriately measure growth on the property side, we estimated that we'll be able to if tax reps roughly 50% of the after-tax profit in that entity on a regular basis.

Now having said that, as you can imagine the, with the difficulties in the investment environment all of the rating agencies are reviewing the capital charges associated with the investment side and its possible but we don't know at this point but it's entirely possible that we'll see some changes in that going forward. As you know A.M. Best who we capitalize are adjust fair models on an annual basis and we would expect some time either late this year or early in '09 that we'll some changes, which will adjust to as well.

Jukka Lipponen
KBW

Thank you.

Operator

Your next question comes from the line of Keith Walsh with Citigroup.

Robert B. Pollock

Good morning.

Keith Walsh
Citigroup

Good morning, everybody how are you?

Robert B. Pollock

Good.

Keith Walsh
Citigroup

I am just a little unclear to follow up on Jukka's questions. So when you guys mentioned that 200 million of excess capital is that including the roughly half of earnings from Specialty Property that we were... I think to be dividend is that?

Michael J. Peninger

Let me walk you through Keith from the beginning of the a year maybe this will help. We started the year with 250, we said from the other businesses after all the expenses we've given a range of 170 to 230 so let's just choose 200 there. For illustration we view as 200 out of property, so that puts aside 650, okay. We made a couple of acquisitions that we've talked about that represent 250 and 25. We've done some share repurchase that give us someone the neighborhood I believe of 315 alright. We're now saying 200 because we've looked at all the capital market activity through last Friday and have adjusted the number down.

Keith Walsh
Citigroup

Okay. So that's including losses as of...

Michael J. Peninger

Last Friday.

Keith Walsh
Citigroup

Last Friday, okay. And then so I guess the capital position to be fair going forward that 200 could potentially shrink if we continue so what we've been seeing through the end of the fourth quarter?

Michael J. Peninger

Or it could go up if you see recovery in credit markets.

Keith Walsh
Citigroup

Okay. And then just maybe a broader question with your stock of 20% right now and trading at 75% of book which I think is below its multiple it's ever been at since you've been public company, maybe thinking about what's the philosophy buying back stock versus acquisitions going forward, number one. And number two, in what kind of scenario could you picture you guys not earning a 15% ROE on the mix up of businesses that you have. Thanks?

Michael J. Peninger

Okay. And well in terms of share buyback we like having share buyback in the tool kit, we did buyback during the quarter under a private transaction and we want to be in a position to buyback shares when we think it's appropriate. Our capital priority on the other hand as we've outlined our first to build the businesses and we have executed on that was a couple of acquisitions this quarter and we're mindful that they're going to be more opportunities available to us given just a disruption in the markets.

I think your last question related to the 15% I think that if we look at a year-to-date ROE number, I think we're still above that threshold Keith including the hurricane activity that's stay in place in the quarter.

Keith Walsh
Citigroup

I guess Rob just a follow up on the acquisition, it just, I don't understand why you would even consider doing deals right now over share repurchase, with your stock where it is, if you could just address what the, maybe get into a little more color what the incremental return on a dollar of cash buying stock versus doing the deal right now?

Robert B. Pollock

It's in at some point Keith, I think we've been focused and we'll go back and I'll have Chris comment on that because we do have a way of looking at these things. I guess that our capital priority order has been focused on building the value with the enterprise. You point out correctly at these levels that the stock is very, very attractively priced and we'll certainly take a look at all that. Chris?

Christopher J. Pagano

Yeah, I guess the right way I kind of think about in broad terms as we just think of our stock has potentially as currency and the ability to buy a company and at lower exchange rate if you will, priced to book relative that where our stock is trading. It's been a factor into our distribution as to whether to implement go with the current priorities which is to do acquisitions ahead of share buyback but its that changes we'll adjust our capital strategy accordingly.

Unidentified Company Representative

And we... just maybe if I can amplify, when we look at any acquisition activity we look at cash returns first Keith and try to make sure we're doing good deals there and we would certainly compare returns on both the cash and a GAAP basis to the economics of repurchasing shares when we do that.

Keith Walsh
Citigroup

Okay, thanks.

Operator

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

Robert B. Pollock

Good morning, Mark.

Mark Hughes
SunTrust Robinson Humphrey

Thank you. Anything relative to persistency in the Specialty Property business, already some drilling off faster recently and maybe just a part of that is the banks so although it was bit picked up, the piece in terms of their sales and properties that they're stuck with?

Robert B. Pollock

Yes, let me make and just couple of high level comments and then I'll turn it over to Gene, but one of the same as I start with is the way our model operates first is we're placing a policy today on something that may have become effective a month or two prior. So our business model is a bit of lagging indicator in terms of how things work Mark and we kind of identified different groups of people who get the policy. Some of them when notified work hard and work hard as quickly as possible, others stand a policy for longer periods of time. So, all that can factor into the mix some. Gene, you want to amplify further?

Gene Mergelmeyer

Just for a little color around that Mark. The average duration of our expired policies is continuing to increase, so we're continuing to see an average duration increase. As well as on our in force of the life to date is continuing to increase. In terms of banks and REO, it's being treated differently on a case-by-case basis.

We did see some slowdown in some of the foreclosure activity, some of that maybe temporary I think a number of states in-acted 30 day waiting period. So we are seeing some yet more aggressive and doing some more sales through auction, but others are actually starting to run out some of their REO property. So it is across the board and it remains to be same just exactly what's going to happen going forward.

Mark Hughes
SunTrust Robinson Humphrey

Thank you.

Operator

Your next question comes from the line of Steven Schwartz with Raymond James.

Robert B. Pollock

Good morning, Steven.

Steven Schwartz
Raymond James Securities

Hey good morning everybody. Remember me if I can, following up on just quickly the foreclosure slowdown if you will is that necessarily a... I don't want to see good things because you don't want to profit from people's misery but is this necessarily good thing or bad thing it would seem to me that once in foreclosure you have a better chance of losing that loan than it just remains out I mean delinquent maybe you can talk to that?

Unidentified Company Representative

Well, we can the thing is a really monitor all of this closely, its certainly difficult to predict exactly what is going on we... in terms of these conflicting affects that are going on by a number of a macro economic factors as well as some of the initiatives that are being put in place today by some of the governmental entities.

We are trying to just say focused on our clients; we believe we're well positioned with our industry leading and our industry leadership. So we're working with them, we're working with our housing policy counsel, Fannie and Freddie and really trying to support them through these troubled times. We think that, that's ultimately just going to improve our relationships with them and continue to set us up for the future.

Steven Schwartz
Raymond James Securities

Okay. As following up on the Fannie and Freddie comment, there has been some discussion that maybe the government winds up owning, return of homes, return of homes more than they already own. And what the government does vis-à-vis issuing those homes. Have you for... is that an accurate statement have, thought about it, have you been in contacts with anybody?

Unidentified Company Representative

Well, again we're continuing to monitor all of this closely particularly into if you just look at some of the recent actions with the talk programming and for example they've seen the change what they plan to do everyday. We're working daily with Fannie and Freddie on a lot of their insurance requirements. So we are trying to stay close to it.

There is a number of questions that our potentially concerning out there in terms of determining what may happen, whether they're buying mortgage backed securities, whether they're buying home loans; all of those things create different situations. Again offsetting factors are going to be things like rises in unemployment that are going to put way more pressure on a lot of the foreclosure activity and things of that sort.

So again, it's very difficult to estimate what is going to happen. We're focusing on the things that we can do which is again focusing on the clients, focusing on our risk management and just trying to improve our relationship with the leaders in the industry.

Steven Schwartz
Raymond James Securities

Okay. One more and I'll just get back in line. Gene maybe you can talk to the... you talk to the sequential decline in gross premium earned. But how about in homeowners to creditor-placed and voluntary the sequential decline obviously I understand that the number of loans has decreased slightly 200,000 but you said placement rates were I was just thinking about you would think that maybe the placement rates could offset a... what is on 29 million of loans actually a very, very small percentage?

Gene Mergelmeyer

Yes, as I commented, I think what's important and what we continue to look at is really the growth drivers. So you look to the insured values it's continuing to grow I'll view at a slower pace as we kind discussed we expect it. When you look the penetration rates, we are still seeing increases in the penetration rates. And again its slowing a bit, if you look to some, but what we tend as Rob mentioned to be a bit of a lagging indicator.

So some of the subprime delinquency rates took a little bit of a dip there in the second quarter. We've seen some things recently that show that maybe they're creeping backup again. So I think we're lagging behind some of those indicators as we look forward again difficult to judge where the thing is going but we see growth in our main primary growth driver.

Steven Schwartz
Raymond James Securities

Okay. Here is one organic. Placement rates up, loans being tracked down from the second quarter just 1% and yet premium and your insured value is up over the second quarter, your gross premium written are down something like 8% sequentially, I just don't get how 1% tracks to 8%?

Gene Mergelmeyer

Okay, Steven now I guess we're going, I apologise. Yeah let me comment on that a little bit, because it is difficult when you're looking at consecutive quarter-over-quarter both and particularly on gross written but also on gross earned or net earned. As we add say for example new portfolios into our tracking, those are going to be going through tracking processes and quite frankly, there are new written premium gets delayed, because its maybe a 60 day cycle and then we're placing policies after that period.

There's been a lot of turnover in the portfolio as we mentioned. So, when loans are lost for example and whether it's we talked about the 130,000 on the prime side. As an example, the way those are being treated, they are actually their policies are going to remain enforce and they are going to run off over time. The 60,000 subprime loans that we mentioned, they were actually cancelled and so we got a large effect to the gross written premium, related to those loans. And those are completely off our books as of the third quarter.

So you just see what the differences of loans coming in and the timing of different placements, you'll get a live variability on those indicators and that's why we've tried to focus particularly on the growth drivers.

Steven Schwartz
Raymond James Securities

Okay. Does that have a because you did point on sales [ph] but you did point gross premium earned. Does that have even a bigger effect on gross premium earned on the gross premium written?

Unidentified Company Representative

Let me try a one different way to just add to Gene's. We... when we into RFP process, we are very good at wining and keeping clients. In this environment there are portfolios that are moving around for different reasons, often the financial condition at the mortgage processor or service. We lost some clients, I think we've point them out in the first quarter of the year Steven okay. And as Gene pointed out some of them the premium went right away, others we continue to earn premium overtime. So, some of the loans that we lost earlier in the year have continue to earn premium, in the first quarter, second quarter, third quarter that at lower and lower levels and also that they're going to be all gone.

Steven Schwartz
Raymond James Securities

Alright. Okay. I'll back inline to ask some more. Thanks.

Unidentified Company Representative

Okay.

Operator

Your next question comes from the line of Beth Malone with KeyBanc Capital Markets.

Robert B. Pollock

Good morning Beth.

Elizabeth Malone
Keybanc Capital Markets

Just a couple of questions. On the share repurchase program you said you bought some back. Does it mean that the SEC your lawyers concerns about share repurchase are no longer a factor?

Unidentified Company Representative

No we actually bought those drop in a private transaction. So we're conservative and we determine that we're going to buyback share... things are under away but we'll view that policy and will buyback when we think it's appropriate.

Elizabeth Malone
Keybanc Capital Markets

Okay. And then on solutions business obviously economic pressures both Europe and domestically you're having an impact. How is that changing the strategy of your expansion, are you accelerating the expansion to trying capture new business from new product lines or something to offset the slowing of demand for the Warranty based product?

Unidentified Company Representative

Craig, you want to talk a little bit about that and maybe go back to when we have the workshop and some of your growth driver areas?

S. Craig Lemasters

Sure. That... internationally I think to answer your question we are pushing very hard and you're exactly right, I mean the vision of our international expansion really is all around getting scale in several regions around the world. They hopefully insulate more in the future for these down turns in any given region. And so we're pushing hard as I mentioned earlier its why the timing of some of these adjustments are where they are, I mean we want to make sure profitability staffed, we've got the systems there and we're obviously incrementally spending there and starting to gear up for the services.

So you are exactly right, we're going to push that very hard. We see an opportunity here at the time we would maximize our opportunities in these marketplaces. It's a lot of disruption in markets we serve and a lot of people and as well as our competitors are kind of getting back to core things and not so much in our space, so we really want to maximize the opportunity.

With that said, still seeing opportunities domestically and really it's what drove our two acquisitions that Rob and Mike spoke about earlier both the GE and the Signal. That we just think position us much better domestically particularly in the wireless space which is really dominated by one competitor, we think to Signal acquisition gives us real unique positioning now to take advantage of that and again really maximize the opportunities in these uncertain times.

Elizabeth Malone
Keybanc Capital Markets

Okay. And then on the Specialty Property I know you all have a pretty significant market share there and I understand there is a lot of movement in the market as you've described, but shouldn't we anticipate I mean isn't the whole idea that as the economy and mortgage problems continue that we should anticipate that your business should grow or this does indicate that we staying the peaking of deterioration in the mortgage market for you and that maybe growth will moderate going forward?

Unidentified Company Representative

Gene?

Gene Mergelmeyer

Yes, its... I'm trying to address that by basically looking at I think our primary growth driver, so we do tend to be a lagging indicator. We are continuing to see growth, it has moderated a bit but it remains to be seen, there's some balances going on here, there are certainly some macro economic factors that are driving a lot of this economy and are expected to continue and then there is some offsetting factors that people trying to do some things, whether it be the treasury or the FDIC so it's very difficult to predict at this point in time. We're monitoring closely and again trying to focus on the things that we can do and just making sure that we're aligning ourselves with the right players, we're continuing to invest in our model and creating things that are benefiting our customers and trying to help them through this troubled time.

Elizabeth Malone
Keybanc Capital Markets

Okay. Thank you.

Operator

Your next question comes from John Hall with Wachovia.

Robert B. Pollock

Good morning John.

John Hall
Wachovia

Good morning Rob. I was just wondering, first this is a small geography question, the re-instatement premium, where does that show up in the Specialty Property business?

Robert B. Pollock

Gene.

Gene Mergelmeyer

Yeah, the re-instatement premiums, so there is an offset in the net earned premium.

John Hall
Wachovia

Great, that's what I thought. Okay I just want to talk a little bit about the investment portfolio in bond losses that we saw coming. Was there any concentration among the losses via I guess statutory entity?

Robert B. Pollock

Look, sure. And I'll turned that over to Chris but, again I think hopefully you'll see what our mix of credits are, we tried to outline that as we gave the industry breakdown so that will give you a geography there and compared against just issuers in general then as we've mentioned previously each of our different businesses have separate asset liability, benchmark durations etcetera. and we manage around that and Chris maybe you could provide a little bit more color?

Christopher J. Pagano

Yeah, hi John let me, maybe I'll just give you some break downs in terms of and unfortunately I don't have the specific stat at any breakdown but I'll just give you some sense of that 200 and almost 300 million total loss number for the quarter. 229 million were in write down, and 130 of that were in the names that we disclosed in our release back in mid September and another 115 of that the remaining portion of that was in terms of bank and finance sector.

And these are situations where we felt that the prices and the yields and that we're being quarter on this bonds were indicative of fundamental deterioration of credit quality and we decided to realize the losses in the form of impairment or in sale. The concentration that you're talking about with respect to various stat and a lot of that is a function and goes back to the AOCI component, the unrealized loss component where we're seeing significant increases and risk premiums in the longer duration entities you're going to see a bigger change in AOCI's result of that.

The problem here is and our biggest challenge right now is we're trying to distinguish between what portion of that increase in risk premium is due to deteriorating credit fundamental and how much of it is, is the function of de-leveraging lack of transparency and alike. Fortunately we have the ability to make that assessment, we're not forced to sell into it because of our business mixed.

We can take a step back and say well this particular issue and again you'll see the list of our top 30 issuers. Although they is an unrealized there, some of which maybe concentrated in some longer duration portfolio. We feel as though we have the flexibility to do not sell into that and allow us to get through this based upon the long term fundamentals of the credit market.

John Hall
Wachovia

Great. And I appreciate your additional disclosure that you offer on the investment portfolio and looking at it seems that maybe in an overall context the exposure of financials is within the range of asset allocation models, but looking at that list of top 30 holdings, there seems to be a very clear over concentration in terms of sizing with financials, I am just wondering what the thought process around that is?

Unidentified Company Representative

Well we have detailed investment policy that really it outlines how we think about, how much we'll invest in anyone issuer, okay. So it starts with a policy that's based on that, I think if you look at the relative amount that issued within the financial sector they have tended to be big issuers of corporate debt. What I look at and some comfort on is a number of those names have recently gotten capital infusion vendor the type [ph] program that obviously have improved their position from where they were from a capital standpoint in September. Chris, you want to comment any further?

Christopher J. Pagano

Yeah, maybe just some general comments, we have issuer limits that are applied at the total portfolio level AAA rating is 1.5% single [ph] 1% BBB three quarters of a percent and so on, so what you're seeing here when you think about in the context of a $12 billion or $15 billion portfolio are relatively small exposures on an individual issuer basis.

The issue of where the concentration is on unrealized losses again goes back to the issue related to our asset liability management where we will match up the duration of various with the durations of our liability, so I think in context I think that what you're seeing here may feel like unnecessarily high concentration, but on a broader scheme of things factoring in the total size of portfolio you'll see that within our issuer guideline.

John Hall
Wachovia

Great. Thank you very much.

Operator

Your next question comes from John Nadel with Sterne, Agee.

Robert B. Pollock

Good morning John.

John Nadel
Sterne Agee

Hey good morning Rob, how are you doing?

Robert B. Pollock

Fit.

John Nadel
Sterne Agee

And so a couple of quick ones and then maybe one little bit more involved. The international expenses for new developments is about $13 million that expected to continue? At that level?

Robert B. Pollock

In the near term I'd say absolutely, what we should see going along with that John I mean I'll let have Craig comment is, obviously we're expecting revenues to start coming forth, because that's why we're doing the spend.

S. Craig Lemasters

That's exactly right John and a lot of this is people related to those who stay well, I mean at any given quarter we can have some one time expenses build out of our offices, some of the system expenses that sort of thing, but some of the people related loan which really is the key to model of course, those would stay with us and I think again Rob said I mean the whole goal here actually gear up now, I mean the goal would be you'll see the percent of the gross premium start to go down. So we will as we add top line internationally.

Robert B. Pollock

And I'd also add that Craig has metrics around each of these countries that we looked at monitor on a regular basis to make sure we're making progress along the lines that he is comfortable with.

S. Craig Lemasters

Just what I thought I mean just again the volatility in some of these markets is challenging but again we see there is an opportunity really to maximize some things that we've been working on and really push even harder, so that's what our international team is doing right now.

John Nadel
Sterne Agee

Okay. Second question is in the health division is the higher expense ratio entirely related to higher commissions due to higher sales?

Donald Hamm

John, this is Don Hamm.

John Nadel
Sterne Agee

Hi, Don.

Donald Hamm

Its partly but primarily its due to little or more technology spend in the third quarter according [ph] interruption of our new product portfolio, to look at the year-to-date numbers they're exactly to same for 2008 and 2007.

John Nadel
Sterne Agee

Okay. And on consolidated basis do you guys have estimate for your statutory capital?

Unidentified Company Representative

I just don't have it.

Unidentified Company Representative

That's of 930 [ph]. I just don't have it with me John, what those terms are.

John Nadel
Sterne Agee

Okay. And then the last one is just sort of go back and maybe be little bit of a dead horse on the property side. Its my sense that, while we've been worried about capital and balance sheet investment portfolios for everybody, and its not to say that we shouldn't be focused here as well but I think the stock is trading today more as a result of a surprise slowdown in the growth rate on both net earned and the gross written and premium line in Specialty Property, right?

And so I guess I am struggling with the idea of a loss of a couple of customers here in a 130,000 loans and 60,000 subprime I mean if I think about the placement rates and the average premium of 1,800 bucks that doesn't seem to explain to me that the slowdown here and I guess I am sort of surprise that we saw the slowdown as much as we did in a single three months period especially since delinquencies and foreclosure rates really have done nothing but continue to go higher. So I don't know exactly how you can explain it? But I'm struggling to get there with you guys on this, especially on the gross written premium line?

Robert B. Pollock

Yes, Gene will you have on that?

Gene Mergelmeyer

Okay. We try to focus on the growth drivers when you look, it is very difficult to look at consecutive order quarter-over-quarter when you're looking at the gross written premium because of the wide fluctuations. And subprime loans in particular that are producing lots of premium volume can have some big swings. And so we did been that impact occurring.

John Nadel
Sterne Agee

Can you give us Gene can you give us a sense I mean if you have the data. What proportion of this swing was that I mean it was a third of it was it half of it?

Gene Mergelmeyer

Again looking at the swing and decline in the gross written premium?

John Nadel
Sterne Agee

Yeah I am thinking more sequentially and I am some thinking about, I am looking at the creditor-placed in voluntary homeowners, gross written premium and the growth rate year-over-year in the second quarter was 39% and in the third quarter I guess 17%? If I am I think I'm looking at the right numbers.

Unidentified Company Representative

Yes.

John Nadel
Sterne Agee

And so if we think about as fair stepping down like that from near 40 to mid teens. I mean that's a dramatic change in a three month period of time obviously, and just sort of trying to understand if you're sort of focused a little bit on some swings in subprime how much of that could that be? And is that and I guess along the same lines is, is that something that can come back real quick. I mean if its swing in one way, is it just as possible that it could swing the other?

Unidentified Company Representative

Yes.

[Multiple Speakers]

John Nadel
Sterne Agee

Such a surprising change a three months been and I think it is the reason why people are selling your stock today?

Unidentified Company Representative

Let me speak a little bit to it, first of all again. Looking at it over a period of time, so focusing on last quarter there were actually some activities in that quarter that probably bumped up that a bit. And that's negative activities occurring in this quarter that brought it down in that. So, particularly gross written premium is one that you're going to get some varying factors again the... again because based on the timing of kind of adding new portfolios there and any delay that might occur as a result of that, and with some loss account how quickly some of that can occur.

Gross written... the net earned premium is a little bit of a more stable and better factor, one of the biggest contributors to some of the decline in that earned premium I'll just of remind you, have to do with the reinsurance cost, so

John Nadel
Sterne Agee

Yeah, no I think that makes perfect sense to me if we adjust for that, we've got a pretty stable growth rate on the income statement line item.

Unidentified Company Representative

Right.

John Nadel
Sterne Agee

And I am thinking more about what the future pertains from the gross written premium?

Robert B. Pollock

Right. So would I I think Gene is, if you say on gross written. I think that because of how our model works okay. The second quarter had some written premiums, some gross written premium in it that may have belonged in the first quarter, so sequentially yeah because we didn't get any time to know about where it may have been so,

John Nadel
Sterne Agee

Okay.

Robert B. Pollock

If you think about first quarter was understated a model little because how the model works, second quarter then got overstated and on a client it is then at run rate John.

John Nadel
Sterne Agee

Okay.

Robert B. Pollock

Those kind of things can contribute.

John Nadel
Sterne Agee

Okay.

Robert B. Pollock

We talked about the 130,000 in the quarter, but remember we mentioned a big block alone that was lost earlier in the year-end consolidation. Okay?

John Nadel
Sterne Agee

Okay.

Robert B. Pollock

Those things have impact where... depending on the particulars of how the client was taken over, we may continue to get some written and for certainly we continue to get some earned on those but at a declining rate. So those things are all contributing to a little bit of the noise and that's why we've tried to focus on the growth drivers.

John Nadel
Sterne Agee

Okay. Alright, thanks. I'll follow up with you guys later. Thanks.

Unidentified Company Representative

Okay.

Operator

Your next question comes from Dan Johnson with Citadel.

Robert B. Pollock

Good morning Dan.

Dan Johnson
Citadel Investments

Good morning and most of mine have been addressed for now, but the replacement rates have been static if we say the ranges have been static year-to-date. Can you talk specifically in the prime category and talk a little bit about what you're seeing sequentially within that 1 to 2% range as well?

Unidentified Company Representative

Again, consistent with some of the increases in the delinquencies and the foreclosures on the prime side, we continue to see be at a smaller rates we're seeing continued increases in the penetration on the prime side. As we have pointed out in prior quarters, we're typically not riding real estate owned properties related to those prime loans, so we do see a slower growth associated with us.

Dan Johnson
Citadel Investments

And to take your words from earlier you said you see growth in your growth drivers average premium placement rates and not really monitored units at the moment, but if we have growth in your growth drivers, is there a scenario was that there is turn out to be growth in premium?

Unidentified Company Representative

Typically not, other than for some of the new launches that we've been trying to explain for on the rest of this call.

Dan Johnson
Citadel Investments

All right. But those you want to send more like sort of quarterly comparison issues but just you about not necessarily next quarter, but anywhere, that we call the reasonable in near term future. If you have growth in average premium, if you growth in placement rate and growth in TIVs? And you do anything but have growth in premium?

Unidentified Company Representative

That is what we would expect, yeah.

Dan Johnson
Citadel Investments

Okay. Thank you.

Operator

Your next question comes from Adam Klauber with Fox-Pitt.

Robert B. Pollock

Good morning Adam.

Adam Klauber
Fox Pitt Kelton

Thank you. I want to focus on that the capital again.

Unidentified Company Representative

Sure.

Adam Klauber
Fox Pitt Kelton

The 3 million you mentioned is that over rating agency standards?

Robert B. Pollock

Yes, because that's what we capitalized to that I mean we capitalized to the peak [ph] higher ratios.

Adam Klauber
Fox Pitt Kelton

Okay. And when was that seems like the rating agencies are getting more stringent on excess capital requirements have they talked to you about that or because of your businesses are somewhat different and some of the other insurers as I said you're okay or were not going to be stringent on you?

Robert B. Pollock

Yeah let me make a comment then I'll turn over to Chris but remember that has a regular process where they adjust our capital form realize on an annual basis and we have regular dialog with them and as we pointed out in Gene's business and particular this year we got them to recognize our model was different and as a result make an adjustment to how their normal factor worked. Chris do you want to just talk about recent conversations or anything that would add anymore color here.

Christopher J. Pagano

We have a regular dialogue with all the rating agencies, A.M. Best in particular because that's we capitalized to. And its entirely possible as far as they review process in '09 that they're going to make some adjustments to the asset charges associated with the various companies that they monitor for us.

Having said that we don't have a lot of asset and tends that this is a diversify business mixed as such that we do have some for example our Preneed block is a very asset tested Fortis [ph] the totaled asset to capital on the aggregate is less than force. So its going to vary by stock entity and we're going to recapitalize to certain credit ratings based upon the be card [ph] and we'll make adjustments as we believe. We not had any indication from Best recently that there is something coming out immediately, but that could change and well again react from a capital perspective to whatever they, whatever they come out with?

Robert B. Pollock

What I to anticipate on that, okay, you can breakdown and if they decide to make for instance asset class adjustments, I think they're probably going to go after the classes that have caused the most problems. And again we're not in a lot of asset classes.

Adam Klauber
Fox Pitt Kelton

Okay, thank you. One follow-up.

Robert B. Pollock

Sure.

Adam Klauber
Fox Pitt Kelton

On the solutions business given obviously tough economic environment you're still expanding it internationally, is that too optimistic to think that you would have material margin expansion next year in that business?

Robert B. Pollock

Craig you want to comment on that?

S. Craig Lemasters

Yes I can't you specific guidance on that but what I can tell you that we're very comfortable with the progress that we're making in internationally. Again Europe has been respectively see sort of unprecedented volatility in Europe and much like here, Latin America, South America has not been as much affected so we're pushing very hard there. So again I think our team is very energized around these opportunities in these uncertain times. And again want to maximize these opportunities rather is uncertainty its some of these marketplaces.

Again a better piece that we're getting traction as I talked about global client management process where we have pretty intensive collaborative planning process that we're doing with both retailers and now some credit card companies that have a similar global footprint as ours and we're getting traction around there, so we're pushing very hard to drive, this combines down internationally.

And then of course on the domestic front the GE transaction we think it's just been outstanding investment and really positioned us domestically much better, but we also have an impact as go forward in driving down our loss ratio in our domestic combines, still very committed to the high 90 long term domestic combines as well as the mid 90s in the international piece.

Adam Klauber
Fox Pitt Kelton

Okay. So its sounds like its still focused on that and we might see some progress next year is that correct? On the margin.

S. Craig Lemasters

That's correct, again that's absolutely what we're pushing at again keeping in mind this is still particularly international long term investment, but absolutely our driving towards progress in the coming quarters.

Adam Klauber
Fox Pitt Kelton

Okay. Thank you very much.

Operator

Our last question comes from Vinay Misquith with Credit Suisse.

Robert B. Pollock

Good morning Vinay.

Vinay Misquith
Credit Suisse

Hi good morning. The loss of loans would that include the Merrill Lynch or the... then it is sold to Bank of America?

Robert B. Pollock

I don't think we disclosed particular client related activities and I'd not even show that well we know what the contract terms are there maybe Gene?

Gene Mergelmeyer

Well, I have received this question before so let me just address that, and we do service Merrill Lynch loans but we don't service all of their loan models that are processed by Merrill Lynch. And we do have those under continuing contracts through the end of '09 and the numbers do not include any of those.

Again there is going to be changes, we can win some and we can loose some, but we still believe again that alignment with industry leaders this is what really positions us well. And the other thing I mean I still feel really good about our business model, and its very good business model and it'll continue to be good business model. I think a lot of the investments that we continue to make are paying off.

We're pleased with things like our other premium. Its still small but we're incubating some smaller businesses and we've seen some terrific growth out of them. We still like the auto collateral protection market, it's a specialty insurance market where there are few competitors and we think it's a very strong adjacency for us. We continue to receive interest in from prospects in that area as well. And we believe it's a compelling business model for the vendors that are out there. Again we think that models going to take sometime but we still think like we're very well positioned in that model.

Vinay Misquith
Credit Suisse

And when did premiums from go forward [ph] property start to roll out, do you think that it's a peak to the regulators and as to put out the capital again in the business, because of that?

S. Craig Lemasters

I think we will be very aggressive at making sure that we right size our capital despite I mean in conjunction with whatever our growth goals. Again focusing on making sure that we're making returns.

Vinay Misquith
Credit Suisse

That's good. Thank you.

Unidentified Company Representative

In closing... I am sorry.

Robert B. Pollock

I'll just point out, first I want to appreciate everyone for being with us today and just point out that in changing market conditions that's often painful but it creates opportunities. And we're going to continue to take actions to minimize the downside impact of the changing markets with an eye towards maximizing opportunities that may develop to better position the company moving forward. And we'll keep continue to update you on our progress and look forward to doing that next quarter.

Operator
This does conclude Assurant's Third Quarter Conference Call. You may now disconnect. .