S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

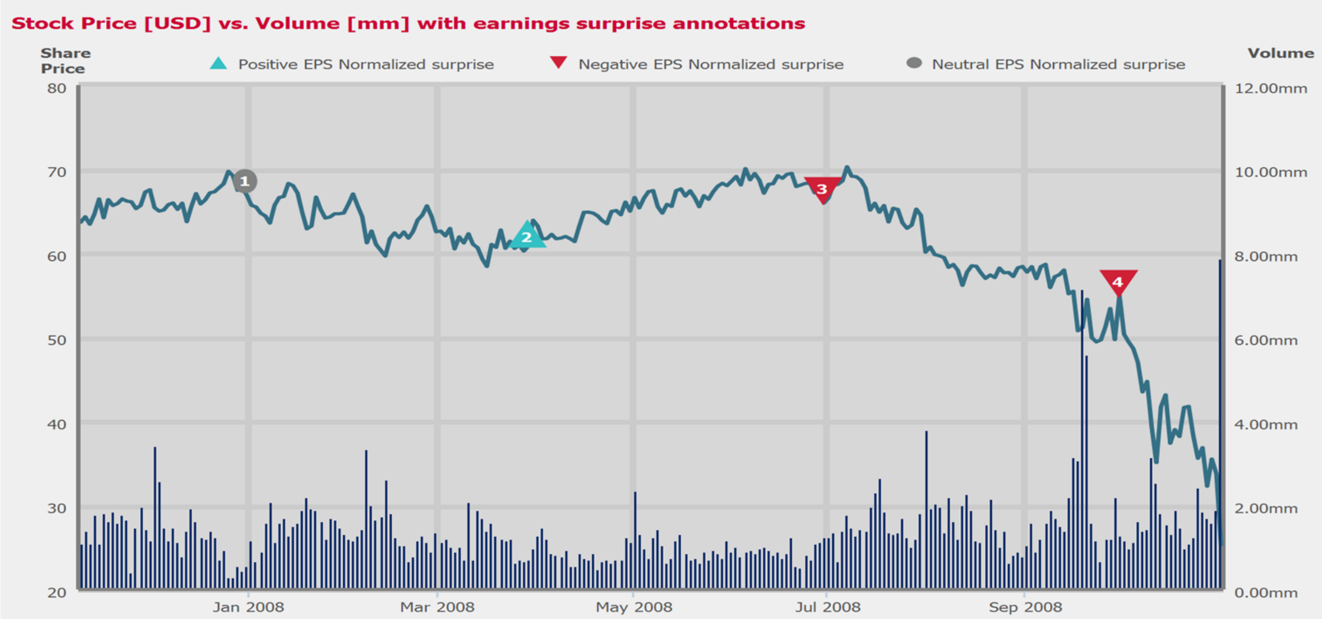
FQ4 2008 Earnings Call Transcripts

Thursday, February 05, 2009 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2008-			-FQ1 2009-	-FY 2008-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	1.53	1.31	▲(14.38 %)	1.61	5.61	5.36	
Revenue	-	-	▲(5.19 %)	-	-	-	
Revenue (mm)	2342.24	2220.61	-	2270.09	8924.34	8601.23	

Currency: USD
Consensus as of Feb-05-2009 1:49 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2007	1.29	1.29	1 0.00 %
FQ1 2008	1.51	1.80	2 19.21 %
FQ2 2008	1.63	1.55	3 (4.91 %)
FQ3 2008	0.87	0.70	4 (19.54 %)

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Call Participants

EXECUTIVES

Christopher John Pagano
Executive VP & Chief Risk Officer

Craig Lemasters

Gene Mergelmeyer

Melissa Kivett

Mike Peninger

Rob Pollock

ANALYSTS

Adam Klauber
Fox-Pitt

John Nadel
Sterne, Agee & Leach

Jukka Lipponen
KBW

Steven Schwartz
Raymond James

Vinay Misquith
Credit Suisse

Presentation

Operator

Welcome to the Assurant fourth 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

Thanks operator. Welcome to Assurant's 2008 fourth quarter and year end earnings conference call.

Joining me with prepared remarks are Rob Pollock, President and Chief Executive Officer of Assurant; Mike Peninger, our Interim Chief Financial Officer; and Craig Lemasters, President and Chief Executive Officer of Assurant Solutions. I’m also pleased to be joined by Gene Mergelmeyer, President and CEO of Assurant Specialty Property; John Roberts, Interim President and CEO of Assurant Employee Benefit and

Chris Pagano, our Chief Investment Officer and Treasurer, all of whom will be available for questions.

Prepared remarks will last approximately 25 minutes after which time we will open the call to questions. Yesterday, we issued a press release announcing our fourth quarter 2008 financial results. The press release as well as corresponding supplementary financial information can be found on our Web site 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 the 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 Forms 10-Q and 8-K, including last night’s earnings release, which can be accessed from our Web site.

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 last night’s earnings release and supplementary financial information posted on our Web site.

Now, I would like to turn things over to Rob.

Rob Pollock

Thank you, Melissa. Good morning everyone and thank you for joining us today. Before I discuss the results for the quarter and year, I would like to take the opportunity to acknowledge that today marks 5 years as a public Company for Assurant.

Let’s not forget the progress we have made in that time. Since year end 2004, we have increased net operating income by more than 80% and our operating return on equity by over 400 basis points. We doubled our dividends. We’ve joined the S&P 500 and broadened our shareholder base. All of these measures validates the success of our strategy and establish a great foundation as we move forward. And I submit this foundation is serving us well in today’s environment.

2008 is the year we will not soon forget. As I evaluate our fourth quarter and full year results, I will remind myself we are operating in an economic landscape that is yet to be fully understood. Assurant prides itself on its ability to learn and adapt to changing markets. As you will hear, we are taking steps to adapt and improve the position of the Company for the both the short and long term.

Earnings declined in three of our businesses. But when we evaluate overall results in the context of the current economy, our diverse specialty business model enables us to be nibble and flexible as adapt. Operating recurrence continue to be solid, and we are achieving growth in many of our targeted areas including creditor-placed home owners, service contracts and Preneed Our investment portfolio and capital position remains stable despite the unprecedented challenges in the world wide economy. Let's review the results of each business in more detail.

Assurant Specialty Property leveraged its leading position in creditor-placed home owners to deliver continued growth in net earned premiums and net operating income. We weathered an active storm season and delivered great service and value to our policy holders' in the time of need.

As the mortgage market evolves, we continue to work with mortgage lenders and services to provide them with levels of service they have come to expect from us. We continue to support activities to create stability in the mortgage market.

Craig Lemasters is here to provide an update on Solutions following my remarks. Clearly our Solutions business is being impacted by the slow down in consumer spending, the primary engine of the global economy. Consistent with our prudent policy, we took action for this quarter to address problems that have served us and have took some charges as a result. However, despite the challenging macro environment, we are finding opportunities to play offence as well as defense in Solutions markets.

At Assurant Health, we have historically seen the medical market expand when the economy slows. However, another example of this challenging economy, we do not believe the overall market has grown during 2008. Certainly growing our individual business had been a challenge. Nevertheless, Assurant Health continues to develop new products and leverage its diverse and broad distribution to serve the individual marketplace.

We believe, we continue to be well-positioned for future growth and support affordable health care for those currently not insured. While Assurant Employee Benefits did not grow overall revenue in 2008, it continues to pursue opportunities to expand the small employer market, while maintaining good results.

We expect to use our capabilities in the voluntary marketplace to help our small employer customers' control their overall benefit costs. Our conservative investment philosophy is helping us navigate through a challenging credit market.

Our net after tax unrealized loss position was virtually unchanged in the fourth quarter, and our realized losses and impairments were less than 20% of what we experienced in the third quarter.

Our investment income was lower than previous quarters. Here we played defense by holding more cash in the portfolio while we wait for better risk adjusted yields. Our balance sheet and capital position remains stable. We ended the year with about $230 million in excess capital, higher than the $200 million we forecast on last quarter's earning call. We did not repurchase any shares during the quarter.

Our buyback program requires further improvement in credit markets to go into effect. But we certainly believe that the stock is attractive at these levels. Our book value per share, excluding accumulated other comprehensive income grew during the quarter, again setting us apart from the crowd. In this environment, we believe playing defense in both the investment portfolio and capital management is prudent. It provides us with the capability of being more flexible and nimble in the future when better opportunities present themselves.

During the year, each business unit contributed dividends showing the strength of our diverse platform. We used the dividends to make the acquisitions of Signal and GE Warranty Management Group. We have repurchased 1 million shares from Fortis and we infused capital at our statutory entities to offset the impact of realized losses and impairments.

Finally, we expanded our financial supplement to improve transparency. New disclosures include after tax portfolio yields, top foreign government issual [ph] exposures, ratings of all our statutory entities and several disclosures to provide additional insight into our Specialty Property business.

I'm also pleased to announce we will hold our 2009 Investor Day on March 18 here in New York City. For those of you who are unable to attend, we will also be webcasting the event. Stay tuned, details will be distributed soon.

In summary, Assurant has the proper diversity and financial resources to address the challenges of the economy. We continue to exercise prudence, while looking for opportunities to strengthen the Company.

Now I would like to turn the call over to Craig Lemasters. Craig?

Craig Lemasters

Thanks Rob and good morning everyone. Solutions net operating income declined for both the quarter and the year. After we give the drivers for our result, I will share with you some details of continued progress in positioning Solutions for a long term growth and improved profitability.

Overall Solutions earnings declined due to several factors. First, we incurred charges of $8.1 million after tax related to client bankruptcies. A decline in investment income continued unfavorable UK loss experience also negatively impacted our quarter.

Our decision to exit business operation in Denmark resulted in $9.7 million after tax charge. However, this decision will benefit the Company's future and I'll give you some additional details on Denmark later in the call.

During the fourth quarter, Circuit City, our largest service contract client representing roughly 20% of our domestic service contract gross written premium and net earned premium for 2008 filed for bankruptcy and later went in for liquidation. As a result, we took $6.3 million after tax charge to write off the receivable from Circuit City.

We'll continue to earn premiums at a similar level in 2009 on Circuit City written in the past, but there will be very little new business written this year. The impact of Circuit City liquidation will be less noticeable in 2009 on our bottom line that may appear on the surface.

If you look on to the foot, we have been with Circuit City to improve profitability from a variety of actions including higher prices and different terms and conditions. So, we will benefit from these actions on contracts that we will earn in 2009, and as a result we anticipate our domestic combined ratio will improve.

Our prudent approach to international development include setting growth and profitability metrics for each country to ensure that appropriate results are achieved in our investment. Despite significant efforts to improve result and meet targeted objectives in Denmark, we concluded that the gap between actual and expected results was too great to overcome in a reasonable timeframe. So, we made the difficult decision to shutdown this business and focus our resources in our other five developing countries.

This action will improve our international combined ratio slightly and should not cause any material change to our (inaudible). Our international combined ratio increased 113.9% from 106.1% in the fourth quarter of 2007, primarily as a result of our Denmark office closing and less favorable loss experience in UK credit insurance.

Going forward, our developing country expenses will be reduced with the closing of the Denmark operation. Also in the fourth quarter, we recorded a benefit of $5.9 million in the final accounting of the third quarter acquisition of the GE Warranty Management Group. The integration of the GE Warranty business into our operation is going very well and will be another source of improvement in our combined ratios in 2009 and beyond.

During the third quarter of 2008, we completed the acquisition of Signal Holdings, allowing us the opportunity to grow our position in the wireless market. We now have the appropriate amount of time to finalize purchase accounting and want us to file an update.

Assurant purchased this business for $257 million in cash including capitalized cost. We recorded $59.4 million of other intangible assets and $169.7 million of good will in balance sheet as of purchase date. We are pleased with our results thus far and we believe we are now well positioned with excellent products, logistics capability and an experienced team to expand our wireless both domestically and internationally.

Assurant Solutions fourth quarter and full year premiums increased 6% and 11% respectively from 2007. The increases were primarily driven by continued growth in the domestic and international service contracts and annual growth in preneed. We achieved this growth despite the negative impact of foreign exchange effects caused by the US dollar strengthening against most other currencies.

Even in this market, we are finding opportunities to play offense to - decline of consumer spending. Our strategies include helping our existing customers improve revenues, giving more customers and expanding distribution. This is all about establishing and sustaining strong relationships. Most recently Solutions announced the addition of new distribution channel with the signing of an exclusive contract with Whirlpool in the US and Canada including the Maytag brand.

This compliments our exclusive contract with GE and leverages our service infrastructure. And we now have a leading position in the North American appliance service contract market. This is a great example of nimble we were at expanding distribution in this case and the original equipment manufacturing market. Another new client we have added is in the international credit insurance space. We are pleased to announce the partnership with Royal Bank of Canada.

RBC is the largest bank in Canada, and this relationship pending government approval should provide a great opportunity to continue to advance one of our targeted growth area. While these clients will not replace revenue loss from Circuit City, we are pleased with the opportunities they provide, and again confirm our ability to grow both our client base and new distribution.

In summary, despite the difficult economy, I'm encouraged by our progress in gaining new clients, entering new distribution, taking swift, corrective action when needed, all of which will lead to long-term growth and profitability.

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

Mike Peninger

Thanks Craig for updating us on how Assurant Solutions continues to take the necessary steps to improve its market position in a difficult environment. Turning now to the results for the rest of the Company.

Assurant's earnings for the quarter and year reflects the continued strong performance especially Property offset by reduced earnings in the other segments. Net earned premiums increase 2% for the quarter and 7% for the year mainly due to continued growth in Specialty Property's creditor placed home owners business and Solutions service contract and Preneed business.

Our net income for the quarter is up primarily due to the real evasion of the $62.4 million tax asset relating to the sale of inactive insurance entity in the second quarter. On an annual basis, net income is down 32%, reflecting an after-tax realized loss on investments of $278.6 million, compared to losses of $40.5 million in 2007. For Assurant Solutions, I will now discuss the results for other businesses.

Assurant Specialty Property delivered excellent top and bottom line results again in 2008 even though we had an active catastrophe season. Fourth quarter net operating income was up 19% to $118.5 million. For the year net operating income grew 7% to $405.2 million. The increase in net operating income reflects the continued growth in creditor-placed homeowners insurance and continued favorable combined ratios.

Catastrophe losses from California wildfires net of reinsurance during the fourth quarter totaled $5.1 million after tax versus $22.2 million after tax in the fourth quarter of 2007. Results for 2008 included a total bottom line impact of $111.4 million after tax from reportable catastrophes including reinsurance reinstatement premiums of $8.6 million, compared to catastrophe losses of $22.2 million in 2007.

Net earned premiums for Specialty Property increased 9% to $519.7 million in the fourth quarter and 22% to $2 billion for the full year driven by continued growth in the creditor-placed business. In an effort to provide more transparency around our growth in our business, we have added gross earned premiums to our supplement this quarter. We believe that the gross earned premiums are a better measure of our growth than gross written premiums because they exclude much of the variability caused by client contracting changes, the timing of policy issue and cancellation activity and seasonal fluctuation of our other business.

We have also added a reconciliation of gross earned premiums to net earned premiums to help highlight the effects of reinsurance cost and seeded business. Reinsurance is often used to contract with clients in the creditor-placed homeowners product line and normally doesn't impact the overall profitability of the contracts.

While there can be variability in our production, we continue to see increases in two of our key growth drivers albeit a slower rate. Our average insured value per property rose to $176,000 in the fourth quarter, up 11% from the fourth quarter of 2007.

Real estate owned premiums, which have been an important part of our growth represent 23% of creditor-placed gross earned premiums in the quarter, the same percentage in the third quarter. Our yield premiums have leveled as a percentage of creditor-placed gross premiums to in part to more - and various state initiatives to reduce foreclosures.

We continue to see modest increases in the placement rates in our subprime and prime loan portfolios, but they remain within our disclosed ranges. Loan counts have decreased as the housing market contract and industry consolidation continues. Rate increases, our final growth driver did not have a significant impact on revenue in the fourth quarter but we continue to take right actions when appropriate and justified.

We continue to benefit from our alignment with market leaders, which has resulted in our portfolio of roughly $30 million trackable loans. Our relationships enabled us to retain over $5 million trackable loans that were impacted by market consolidation in 2008.

In the fourth quarter, we added 100,000 sub-prime loans and we also lost 217,000 prime loans as a result of continued industry consolidation. We believe that our ability to deliver customized technology based services to our clients' positions us well in the future and win new business.

As we look forward to 2009, we are focused on maintaining a comprehensive catastrophic risk management program. The major objective of our program is to protect the capital base of the Company. Our secondary objective is to mitigate earnings volatility when the reinsurance market pricing environment allows us to do so.

As our business has grown, so has our exposure to storm risk. At the same time pricing and the reinsurance market has hardened. We purchased a good portion of our coverage in January and will secure the remainder of our program in June. It's clear that the cost of our 2009 program will be higher than that of the 2008 program for several reasons.

First, we were more slightly participate in the Florida Temporary Insurance capacity limit or (inaudible) fund this year. In 2008, the roughly $170 million that coverage that we purchased was placed at rates that were substantially below private market rates. In 2009, we expect to purchase this coverage through the private market. Second, we will be buying more coverage due to the growth in our book of our - in our book of business. And finally, we are seeing higher prices in the catastrophe marketplace. 2009 prices appear to be running about 20% above 2008 levels.

As part of our ongoing risk management efforts, we have terminated certain non-core products currently included in our product category. This will cause the reduction of approximately $65 million of gross earned premiums in 2009 versus 2008. It will not have a material impact on 2009 earnings.

Assurant Health continues to produce ROEs and a good combined ratio. Earnings, however, declined for both the quarter and the year reflecting the continued reduction of small group premiums and less favorable individual medical loss experience.

We believe that previous economic recessions did not adversely impact the individual medical market. However, this current economic environment appears to be different as fewer people are now purchasing individual medical insurance. We believe this is likely due to concerns about affordability which highlights the need for healthcare reform in our country.

Assurant is actively involved in efforts to improve the availability and affordability of individual health insurance. Don Hamm, Assurant Health CEO is a member of the Board of (inaudible), the primary health plan trade association and shares they have CEO task force on individual medical insurance.

Net earned premiums during the fourth quarter and full year 2008 were both down 5% compared to the same period last year. Individual medical and net earned premiums were down slightly for the quarter accompanied by continued quarterly and year over year decline in the small group premiums.

Now more than ever, Assurant Health is well served by its long history and deep knowledge of the individual health market. We are working to further differentiate our products and service offerings to appeal to a broader audience. With healthcare represented a bigger portion of everyone's budget, more time and thought have been put into the decision to buy health insurance. We are also growing our distribution channels as seen by our renewed contract with state farm and the increasing contributions of our depth - direct distribution channel

Assurant Employee Benefits net operating income decreased 13% during the fourth quarter and 19% for the year. The decrease in the fourth quarter was primarily driven by $2 million after tax decrease in investment income and less favorable overall loss experience. This is offset by a lower expense ratio and $3.5 million after tax benefit from our annual reserve adequacy study.

The decrease for the year was driven by a decline of $9.2 million after tax and investment income from real estate joint venture partnerships and less favorable loss experience compared to the prior year particularly in our dental [ph] line of business.

Fourth quarter earned premiums excluding single premiums declined by 1%. For the year, they were up less than 1%. We were pleased that sales in our core small employer market grew for the year. We have taken steps in the last few years to focus in the small case market and are positioned for future growth amid challenging economic times. We will continue to maintain our pricing discipline and look to leverage growth opportunities in voluntary and our alternate distributions through our Disability RMS.

Corporate and other results improved due to lower expenses relating to the ongoing SEC investigation including reimbursement of certain investigation related expenses through our DNL insurance coverage. Fourth quarter 2007 results also included $6.4 million of net tax expense associated with changes in various tax liabilities.

Let me now expand a bit on Rob's earlier comments about our investment portfolio. Despite challenging financial markets in a deteriorating economic environment, the portfolio's pre-tax unrealized loss position increased by less than $8 million during the quarter to $737.9 million as of 12/31/08.

During the quarter, we realized $51.8 million of pre-tax losses including $40 million of other than temporary impairments. These amounts are significantly lower than that third quarter when we realized $299.2 million of pre-tax losses including $229.1 million of other than temporary impairments.

Our impairment process has remained consistent all year and did not change during the fourth quarter. We believe that our conservative investment approach and our decision to lower the portfolio's overall risk profile over the course of 2008 contributed to a relatively good quarter.

Some of our risk mitigation actions including our decision to increase the portfolio's cash position, plus the reduction of about $10 million in net investment income in the fourth quarter versus the third quarter. However, the market is still very volatile and given the uncertain economic environment, we feel that it is prudent in the short term to sacrifice investment income and maintain a lower risk profile. Once the market stabilizes, we are confident that we will be able to identify more attractive risk adjusted yields.

Our balance sheet remains solid. We are pleased that book value per share including ALCI was virtually flat with that of 9/30/08. As of December 31, 2008, total assets were $24.5 billion and total shareholders' equity, excluding accumulated other comprehensive income was $4.4 billion. Book value per share excluding AOCI, was up 10% to $37.21 from $33.73 at December 31, 2007.

Our debt to total capital, excluding AOCI improved 18.3% versus 19.7% at year end 2007, another indication of our financial strength. Our ratio of invested assets excluding cash and equivalents to shareholders' equity excluding AOCI, an important measure in the current climate was. 3.3 to 1 at December 31, 2008.

Let me close by mentioning an accounting change we are making in 2009 for preneed. Effective January 1, 2009, all new preneed sales will be accounted for under FASB 97, which governs accounting for universal life type policies. In the past we have accounted for this business under FASB 60, which governs accounts for traditional life insurance policies.

The change means instead of recording net earned premiums and associated earned claims, incurred claims, we record policy fees. The change will not have a significant impact on our bottom line profitability but will reduce preneed earned premiums and start revenue comparison of prior periods. We will update the revenue impact of the change in our 2009 earnings call, so you will be able to determine the impact that are in our top line.

In summary, in the midst of unprecedented economic landscape, Assurant continued focus on the disciplined execution of its proven strategy, positions the Company for future success.

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

Rob Pollock
Thanks Mike. Operator, we are ready for questions.

Question and Answer

Operator

(Operator instructions) Your first question comes from John Nadel.

John Nadel
Sterne, Agee & Leach

Hi, good morning everybody.

Rob Pollock

Good morning, John.

John Nadel
Sterne, Agee & Leach

So, a couple of questions for you. I think - thinking about Specialty property, we have been, we all I think have been watching prime mortgage delinquencies continue to rise. And may be I'm a bit surprised to see it's not showing up more in your numbers in the past quarter too. I may be wrong on that and some of your new disclosures might add a bit differently. Can you talk about what you are seeing there? May be give us a sense for how much that placement rate is moved up within the 1% to 2% band and also comment on any effects you are seeing from foreclosure or activities that stand foreclosures?

Rob Pollock

Sure. I just want to make one comment and then turn it over to Gene. And that is I want everyone to remember the way our business model works in this business it is a lagging indicator. In other words, we send out to customers the fact notifications of, they need to show proof of insurance and then if they don't respond we'll place policy. That can often be 60 day and 90 day lags that occur in that. So, again just need to remember that's how the model works. Now Gene you can comment and share more on the specifics.

Gene Mergelmeyer

Sure. Let me try. Certainly the - which are in between the segment of the business between REO and the creditor-placed business. And one thing to remember is typically while writing REO on the subprime business, and so from that standpoint when we look at what is going on in the creditor-placed business, we've actually see pretty consistent growth in that prime category. It's just that did at a lower rate than we have in subprime. Recently, the trends were actually in subprime while we are still seeing growth, that growth has actually been decreasing. And I think that's really occurring as part of the fact that we are seeing delinquencies still rise in subprime but they are rising at a lower rate. So, that's one of the phenomenon that we are seeing that have been contributing to growth. Your second question was really around the effect of any more targets. Certainly, I think we have seen that effect. And we have mentioned in the call that creditor-placed was 23% of the gross earned premiums similar to last quarter. You likely noted - even though we do believe that gross written premium is less of an indicator because there is just so many fluctuations on that business. One other reason that was down was to real estate owned business. So, we did see a slowing as a result of the more - but when you really look at what's going out there now in the industry, one of the bigger factors was actually California and some legislation that was put into place there that delayed some foreclosures. So, we saw foreclosure activity, foreclosure starts actually go down a bit in the third and fourth quarter. But when you look at some of the newest statistics, I think they are recording that December notices the following scenario, I mean they are literally up 17% over November. And they are literally doubled in California. So, there is some macro economic things going on out there. There's a lot of activity around trying to mitigate things, and it is having some impact on our business.

Rob Pollock

So, I mean, obviously there's a lot of different things going on John. We are trying to be nimble and flexible to adjust to it. Gene is on top. It's different by geography. It also varies by client, but we are working hard to stay on top of all these things.

John Nadel
Sterne, Agee & Leach

Okay. Maybe just as a quick follow up on that before moving over to Solutions. Maybe it's simple enough to ask at this way, do you expect top line growth in Specialty Property in '09 over '08?

Rob Pollock

We don't really provide guidance but certainly John, if you look at it we've tried to lay out what the growth drivers are. And I think one of the big ones is certainly placement rate, and placement rates go up, our top line is slightly going to go up.

John Nadel
Sterne, Agee & Leach

Okay.

Gene Mergelmeyer

We are encouraged by some of the activity. I mean, one other things that has obviously occurred in the last couple of quarters has been the home loan modification process. And quite frankly as they go through that process, one other things they are gong to look at is the insurance cost, and they will do their best to try and get that insurance cost down. What we are finding though is that we are maintaining some of our forced [ph] placed business through that process and we have been able to again albeit at a lower rate, increase our placement rates despite all of that loan modification. So, that's been encouraging.

John Nadel
Sterne, Agee & Leach

Okay. Thank you. Switching to Solutions, I guess, I understand you are keeping your liquidity level somewhat higher and that's defiantly having a drag effect on your net investment income on the margin. Can you give us a sense, I know you guys don't like to give guidance, but this division has been so difficult despite the workshop and the additional disclosures that you guys have done over the past year. It's very difficult to get a handle on this division's earnings and may be you could give us a sense for where you think the run rate of earnings after adjusting for a bunch of these one time items the - we don't know exactly, may be you can tell us what the drag is on the combined ratio from Denmark and the UK credit insurance business? What your combined ratio is excluding those items, that might be helpful? But just give us a sense for where the run rate is? Are we talking under $20 million quarterly or is it mid-$20 million, I'm just unclear on that?

Rob Pollock

Again John, I think where you want to start is, we have put some high level deposits out on combined ratios that we think we can achieve over the long term.

John Nadel
Sterne, Agee & Leach

Yes.

Rob Pollock

Combined ratios are 98 domestically and mid-90s internationally. Internationally, obviously it takes longer because we are expanding in the number of countries and we pointed out how that will be a function of the type of service contracts that are written etcetera. I think that what you heard when (inaudible) a number of action taken defensively to better improve our results for next year, which we think will move those combined ratios toward our goal. Craig?

Craig Lemasters

I'll add to it, Rob. I mean, John, you mentioned the workshop. I think the things that are highlighted there are in terms of borrowing [ph] ultimate profit improvement have not changed. Obviously, time line is quite challenging in what's going on in the economy is really not that we saw (inaudible) all the markets that we in now. I think I mentioned earlier, there are several specific things that will be coming through over the next few years, and that said will improve our results. One of the more generous way back to the (inaudible) transaction and will take that business really do all the things that I think we are good at in terms of risk management and need to improve those results. We expect that to -. We think we are very prudent about expense in general. I mentioned Denmark earlier. I think it's a great example again - moves where I said it over the last several years, whenever we are in a developing country and we are spending money is an investment for the future. If I ever get to the point where metrics don't look like we are not going to achieve our long-term goals, we are going to exit. And as a decision, I think that's a great defensive move at these times to help improve our results as we move through 2009 and beyond. So, again the items haven't changed. I can tell you that our team is more focused in every other things that we can have influence over. I think that we control, and that's some of the highlights that I gave earlier - new clients and new distribution. We are in fact improving this as well.

John Nadel
Sterne, Agee & Leach

So, Craig, just a follow up. I mean what's your view of the combined ratio in the quarter excluding the Denmark cost and then some drag from UK credit?

Craig Lemasters

I won't give specific guidance on that John. But again I think the biggest mover for the quarter was on international clearly to Denmark $9.7 million. The UK, we talked about that for a couple of quarters. It's not of the size that we put into supplement but it is drag on our combined internationally now. Again on that specifically, I talked about Denmark. I think UK we are taking pretty swift steps there in terms of some isolated Internet distribution that we tested. And we are taking very swift steps to improve that, and we expect that to improve and have a positive impact in this year (inaudible) combined internationally. Those are the big drivers that (inaudible)

Rob Pollock

If you take the 9, 7 on Denmark and relate it to a combined ratio I don't know what the denominator is but I didn't calculate that.

Gene Mergelmeyer

Bankruptcy is - there were definitely some I think if you look at the slowest items John, I think you can back into that -

John Nadel
Sterne, Agee & Leach

Okay. So, is it fair for me to just use your corporate tax rate? Is there anything that we need to do different on Denmark?

Gene Mergelmeyer

Yes. The tax rate just at the start of this quarter, if you see the - in fact the tax rate for Solutions is way up there. That's partially part of the Denmark impact was $3 million of tax asset write off, and there was some other foreign adjustments in tax valuation allowances start that rate. So, I think better run rate - effective tax rate for Solutions is going to run probably in the 33% or so. I think in the past we have given some guidance on tax rates where it has or may be closer to 32%. Now you got the Signal coming on boards and some other things over - The run rate now is probably going to be in that 33% range.

John Nadel

Sterne, Agee & Leach

Okay. May be you guys can come back on that side. I don't want to spend more time on it right now. But if pieces of Denmark were tax items versus actual G&A write offs or other, may be you could actually just clarify for us the actual impact on the combined ratio. I think that will be helpful just for us to get to a run rate. To some level that excludes that noise, the only other thing on Solutions was just thinking more positively, obviously a great addition in the Whirlpool relationship, and it's my understanding that Whirlpool had that bunch of different insurance providers but primarily with IG. Obviously, IG has got its own issues, but can you comment on whether you are seeing any RSP activity from other large retail relationships from other insurance providers like Best Buy or Wal-Mart or others?

Rob Pollock

Sure, John. I don't want to comment specific on client by client. But I would say in general, what you are asking is or saying is correct. There is an activity right now and we see it coming in two places. If you look at our competitors again not just here, but globally, they tend to either be clients themselves who could do a lot of these programs themselves or the companies that tend to be in service contracts as they sign not necessarily at core [ph] level. Everything going on out here we see most clients and certain competitors retrenching to core and looking for alternatives. So, this is encouraging part of our business right now and it is we see a very strong activity right now. Again like never before when we were working hard, our fore capabilities with these folks and Royal Bank of Canada is a great customer and hold [ph] them is very difficult - and we could be a real resource for recovery for our clients. So, we are very encouraged by the level of activity.

John Nadel
Sterne, Agee & Leach

Okay. And then last item, I promise, statutory capital at the end of 2008 on the consolidated basis, any estimate on that?

Rob Pollock

No, but they will be in the take [ph], but we are just working through in our books right now John.

John Nadel
Sterne, Agee & Leach

Okay. Any difference, any meaningful difference in impairments that you guys have taken on a GAAP versus statutory basis that think about there?

Rob Pollock

Chris, can you talk about that?

Christopher John Pagano
Executive VP & Chief Risk Officer

In GAAP, the numbers are very similar. Just may be a couple of comments on the impairment. I think certainly it's considerably less than the third quarter. I think a lot of that had to do with assets that had loans and continuing to have difficulties in investment market. We also did make some conscious decisions to reduce the risk in the portfolio taking right from the third quarter realizing sales etcetera and I think that's paying off for us right now.

John Nadel
Sterne, Agee & Leach

Yes, you noted that you see some of that activity unlike a few of other in the insurance business. Okay. Thanks guys.

Rob Pollock

Sure.

Operator

Your next question comes from Steven Schwartz with Raymond James.

Rob Pollock

Good morning, Steven.

Steven Schwartz
Raymond James

Hi, good morning everybody. I'll try and make this much quicker. From GE Warranty, the benefit that sided, is that a continuing ongoing benefit or was that a one timers. It wasn't clear for me?

Mike Peninger

That was a one-timer, Steven. That was just a finalization for the accounting for that transaction in the third quarter.

Steven Schwartz
Raymond James

Okay. Mike, there wasn't - I don't think there wasn't any disclosure in the back of the supplement, which the -

Mike Peninger

It's in there John - Steve it's the client related settlement, it's just up 5.9 -

Steven Schwartz
Raymond James

Okay. Great. Okay, good I got it. A question on extended service contract. There was an article yesterday or two days ago about cobblers actually of things, people getting their shoes fixed. And a recession as this that we are going through, would one expect a contract holder to access his contract more than he would in good times?

Mike Peninger

We have not seen that, Steven. I mean we are watching that in our risk management business is pretty diligent. (inaudible) So we are going to look for any of those sorts of trends we have not seen in terms of our overall experience right now. It's interesting on part of this we have seen in terms of (inaudible) this business while obviously the retailers are struggling and we see a decline for those of this direct model on the original equipment manufacturing, in fact I mentioned earlier, pretty exciting because we are actually seeing very strong business. So, it looks like in these tougher times, people are just serious and want to renew service contracts which will make sense in terms of if you not necessarily replacing things but we are holding on to the equipment longer and that's really given us an opportunity and that's why we like that distribution.

Rob Pollock

I just point out to Steven that we avoided the shoe market with the -

Steven Schwartz
Raymond James

Good for you. Mike, then pension expense, should we expect that to increase this year?

Mike Peninger

In 2009?

Steven Schwartz
Raymond James

Yes.

Mike Peninger

It will go up a little I think but I don't have the number of the top of my head, but I would expect that number to go up just a bit.

Steven Schwartz
Raymond James

Okay. And then the last question, a theory question on Specialty Property. You have a loan, it's subprime. You are insuring it. It move to REO, you are insuring that. My understanding is - the revenues may change, the profitability is the same. Does it matter? Structurally does it matter if there is more time for closures because it just remains alone creditor-placed or does it post to REO?

Mike Peninger

No. It may not matter.

Steven Schwartz
Raymond James

Okay.

Mike Peninger

But in certain cases, we may have the creditor-placed business, and it may be creditor-placed. In other cases, we may not still get it until it reaches REO

Steven Schwartz
Raymond James

Okay. All right.

Mike Peninger

And one other thing there is Steven to remember. Not all of our clients would we have on our creditor-placed program necessarily have an REO program with us.

Steven Schwartz
Raymond James

Right. To me that would - that's why I was thinking. To me that more - actually be a positive for you because when the loan stays with you as opposed to moving to somebody else who is self-insured.

Mike Peninger

Right. That's true. Also remember you can have situations where the insurance may not happen until it goes REO status.

Steven Schwartz
Raymond James

Right. Okay, so they are different things. All right, that's what I had. Thank you guys.

Mike Peninger

Sure.

Operator

Your next question comes from Jukka Lipponen with KBW

Rob Pollock

Good morning, Jukka.

Jukka Lipponen
KBW

Coming back to the growth, and how we should we thinking about it in Specialty Property, the fact that on the gross written basis, the REO business was down in terms of the mix and obviously the REO as you are showing had the higher insured values. So, how should we thinking about the impact on the top line from that angle aspect?

Mike Peninger

Again I think we are trying to add some transparency here by giving those additional disclosures. On the gross written premium side, it was 19% of the creditor-placed business versus the 23%. So, that was the impact on the specific quarter. When we look to the future, again I think barring some of these more torrents and some of these stated facts that have delayed some of these foreclosures. We are cautiously optimistic that some of that REO business will increase. Secondly, as yes, you look to the industry there's a lot of foreclosures that are continuing to be forecast and that's what we are looking to - guidance for that.

Rob Pollock

I think part of the transparency, Jukka, is to think about this business in different pieces, okay? REO is a separate business, okay? Remember Fannie and Freddie self insure all REOs, so we are not going to be in market where there is a Fannie Freddie loan for REO. And only a sub set of our clients list has an REO program with us. So, as you model through what might become an REO property, remember those facts that - I think that will help you think about the market a little better.

Jukka Lipponen
KBW

And what is the amount say that the clients move up sequentially in this quarter?

Mike Peninger

We actually had clients that we moved to our reinsurance program, back dated a bit which really drove the largest part of that increase in the receiving amount.

Jukka Lipponen
KBW

And in Solutions, the growth there how should we thinking about the timing of the Whirlpool relationship and the RBC relationship, how that's going to help on the top line? And then also can you update us on what's going on in China?

Mike Peninger

Sure. In terms of both Whirlpool and RBC, those are sort of mid-year implementations, Jukka. So, we are starting to see the benefit of both of those later in the year. So, I guess thinking about the top line of Solutions, other than that internationally, really we are seeing now than we have seen in the last few quarters. The same thing going on in the credit line on gross written, then we see in (inaudible), the biggest market still in the UK and Canada for retailer. Those are behaving much like here in the US. So, we'll have pressure on that. The offset will obviously increase pulling off aggressively is to add which will help to soften as it gets going later in the year. And service contracts for a flat quarter over quarter seeing those trends in Latin America (inaudible) where our service contracts but again we see those markets slowing down quite a bit as well. Domestically of course the credit churn is in the same mode effectively and - service contract line again the pressure will come there from the Circuit City a run off [ph] in the business. So, the real focus for us is that this new distribution ability to get GE and operating at an even higher level, getting Whirlpool implemented - very important. And the final piece of it is wireless, again you get into the wireless space and they - we are thinking in a big way and guys have great capability to get share in wireless. And that really is our focus, new clients and new distributions. So, we are pushing very hard in the wireless.

Mike Peninger

And I think you also asked about China?

Jukka Lipponen
KBW

Yes, China.

Mike Peninger

I think we are right on track. We are up and running the service contract. And on the insurance side, we are still in the waiting period I think Craig?

Craig Lemasters

That's right. We opened service contract companies in the middle of last year and really spent the lateral part of the year staffing. We have a General Manager there and we are in the process now, we are actively prospecting service contract. As Mike said, the insurance takes longer because we are in a rep office status which will go for a 2 year period. But we are pleased with the progress so far in the service contract side.

Mike Peninger

And again here's a great example of the risk management (inaudible), Craig is actually using the - people in China the process some US business to just get a feel of how it works, and again to me that means when the business does come we'll have an experienced group there.

Jukka Lipponen
KBW

And last question, Rob, you said you want to see improvements in credit markets before you would actually activate buy back. Can you give us a little color and on what kind of things you are looking for or looking to there - prudent to keep capital at this point? But at the same time like you said the stock is attractive and presumably the slower growth is going to generate excess capital going forward?

Rob Pollock

Yes. Two things I think about Jukka, one I think we said we like to see the credit markets looking more like they looked like middle of last year, I'm going to let Chris comment on that. The second one we want to see obviously is every year, the rating agent recalibrate their capital formulas and we want to be in a position to see how that plays as well. So, those are the couple. I'm going to let Chris comment a bit more on the credit markets.

Christopher John Pagano
Executive VP & Chief Risk Officer

Hi, Jukka. When we talk about the service portfolio performance and had a gauge the changes in unrealized - we like to look at our portfolio. We take (inaudible) in general and corporate bond. That's the - when we look at credit market stabilization, that's what we are looking at. We saw a rather hard third quarter and then the market got worse early in the fourth but stabilized towards the end of the year. That's the metric we were looking at, that was regard to how we manage the asset to net off the (inaudible) I think here the key for us in regard to the excess capital the holding company is to maintain financial stability and when we get a better line with regards to the market, the economy and profitability in 2009, we'll have a better sense of how to deploy them.

Jukka Lipponen
KBW

Thank you.

Operator

Your next question comes from Vinay Misquith with Credit Suisse.

Rob Pollock

Good morning. Vinay.

Vinay Misquith
Credit Suisse

Hi good morning. Could you help us understand your exposure to credit insurance outside the US? I believe you have about $800 million worth of premiums. How should we look at higher unemployment outside the US affecting your margins?

Rob Pollock

Sure. In general, the majority of our arrangements, Vinay, operate where there is retro-commission based on the profitability of the business. That's not in every situation, but certainly for the majority of them in place. So we certainly have protections built in for an increase in unemployment. The other thing I'd mention is that we are often selling a bundled product, which involves not only unemployment, it involves credit life and it involves disability. The credit life rarely shows much variability even in economic downturns and that can be a buffer. Craig, you want to comment a little more?

Craig Lemasters

Yes - no, I think that's a good description, in general, of where we are outside of US with this product, Vinay, and again the pressure on the loss ratio is really been specific in most parts of UK. And really there we are testing new distribution, which we always think the Internet is a very viable distribution that we have to be a part of. So that's an area we are obviously not going through a third party, so we don't have that same contractual relationship. Well, this all came when the unemployment rate escalated very quickly as we got into the third quarter of last year. But because it is again we use the same risk management techniques everywhere in the world now. So when something like this happens, we move very quickly and again same techniques, rate changes, terms and conditions, we will cancel a business if we need to, to correct these as quickly as possible, and that's what we are doing in the UK.

Vinay Misquith
Credit Suisse

Alright. And with respect to the Denmark office, how much in dollar terms would you say per year from the closure of that office in the form of expenses?

Christopher John Pagano
Executive VP & Chief Risk Officer

Yes, Vinay, we are still looking at that. I mean the charge that we took was around severance, we mentioned the tax earlier in the call and some of the office things as well as reserves that we put up with we think are appropriate for the run off. We are now in the process of actually finalizing how we will run off those existing contracts and what's the cost associated would be. Obviously, as we move through next year, we would expect those expenses to begin to reduce throughout next year.

Vinay Misquith
Credit Suisse

Do you have a number for quarterly expenses are in Denmark, right now?

Craig Lemasters

Right, I mean our hope would be that again we've been running roughly $2 million so that would be sort of a target would be around the $2 million frame, which would be consistent with some of our developing quarters.

Rob Pollock

Yes, that's per quarter.

Craig Lemasters

Yes, that's a quarterly number.

Vinay Misquith
Credit Suisse

So, $2 million per quarter were your expenses in Denmark and that might come down later (inaudible) that's great.

Mike Peninger

Yes. Remember there is a - the run off Craig mentioned, we've got actually shut down the thing, so they won't just quote as zero starting on January 1st.

Vinay Misquith
Credit Suisse

So, fair enough. And the last question was on the health insurance. I believe you mentioned that there was a change in the buying patterns and that individuals were buying less health insurance. If you could just expand on that or maybe I miss-heard you?

Craig Lemasters

No, that's what we certainly tried to convey, Vinay. I mean I think that we - it's difficult to get all the roll up of the number of people who are covered by individual health insurance. And so we try and make estimates of that and our estimates are the number of people covered have not grown. And typically, in an economic downturn we have seen the number grow. As Mike mentioned, a lot of this is around affordability issues, and again we are committed to affordable healthcare for everyone and want to come up with more solutions to bring people into the market. Mike mentioned Don's industry involvement. In fact he is there - industry meetings today. That's why he is not here to answer this, but we are working hard on it. We introduced some new products that have been well received. We mentioned those, the patient care, the TeleDoc product, et cetera and we see continuing need to introduce new products and see how consumers respond to them in the marketplace and we've been successful and have a long history of doing that. So, Mike mentioned we are testing new distribution system. I am sure you've seen some of our commercials. We are getting traction around that. So, again, we are optimistic over the long term that there are plenty of growth opportunities there.

Vinay Misquith
Credit Suisse

And that's great. Thank you.

Operator

Our last question comes from Adam Klauber with Fox-Pitt.

Rob Pollock

Good morning, Adam.

Adam Klauber
Fox-Pitt

Good morning, Rob, thanks. I'll try and make it quick, two or three quick questions.

Rob Pollock

Sure.

Adam Klauber
Fox-Pitt

On the build up of cash and short term investments, any sense on are you going to continue to do that in the near term?

Rob Pollock

I'll let Chris comment on this.

Christopher John Pagano
Executive VP & Chief Risk Officer

Yes, I think I mean we are fine defense right now and I think this is a tactical decision on our part. Our investment philosophy has never been about reaching to the last dollar's income and that's what kept us out of some of the problems that I think some of the other investors are facing right now. But the goal here is when we get a better line of sight, get a better feel on the direction of the economy, when we get a better sense of what the government actions are going to be regarding the banking industry, then we'll feel more comfortable deploying those assets. We do think that ultimately there is going to be a bill to paid for all the stimulus and all the intervention and that will we think lead to higher overall interest rates in better reinvested yields for the portfolio. And again, tactical. Do I see a line of sight in the next month of weeks so that we may get a better sense, but now we are going to play decent investment portfolio.

Adam Klauber
Fox-Pitt

Okay, thanks. Also on the health legislation, on the surface it looks like that could be in fact it help cover a decent portion of your market. Any sense on how much your market that could impact?

Christopher John Pagano
Executive VP & Chief Risk Officer

Are you talking about the COBRA extension, Adam?

Adam Klauber
Fox-Pitt

Yes.

Christopher John Pagano
Executive VP & Chief Risk Officer

Yes, I mean COBRA extension, we certainly get people who leave employment relationships and chose not to exercise COBRA, the subsidy might have more of them being covered. I think the thing to remember, however, is that COBRA is an average group rate and the cost of care varies dramatically depending on your particular demographics. And so younger people are that way - we have a product, our short term medical product that is very geared toward an even lower cost alternative. So a lot of it becomes an affordability issue, Adam. You know there has also been things recently. I noticed Senator Baucus, who Chairs the Senate Finance Committee, has made some recent pronouncements that say, we are going to have a private-public marketplace going on here as we move forward, So I think most of what's been introduced between the children's program and some things to help people because of the economy are the things that are most likely here in the near term on the reform side.

Adam Klauber
Fox-Pitt

Okay. And one last quick one. The Hartford - the sale of the variable to Hartford, is that still well above water?

Christopher John Pagano
Executive VP & Chief Risk Officer

I am sorry, one more time, Adam?

Adam Klauber
Fox-Pitt

The sale that you guys did a number of years ago of the variable book to Hartford—

Christopher John Pagano
Executive VP & Chief Risk Officer

Yes.

Adam Klauber
Fox-Pitt

If that's still well above water?

Christopher John Pagano
Executive VP & Chief Risk Officer

Well, there is a trust that the assets are held in and Hartford is meeting all the requirements with respect to the amount of assets that they keep in the trust to back the liability. So there has been no change in that status.

Adam Klauber
Fox-Pitt

Okay, thank you very much.

Rob Pollock

Okay. So, first, I appreciate, everyone being on the call on our anniversary today and we certainly recognize that we have some difficult times going on. But we see lots of opportunities for us to leverage our capabilities with partners and customers and I think we are in a position to play off and from a number of those fronts. I look forward to updating you on our progress on our next call. Thank you folks.

Operator
This does conclude today's Assurant's fourth quarter conference call. Thank you for your participation. You may now disconnect. .