S&P Capital IQ

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# Assurant, Inc. NYSE:AIZ

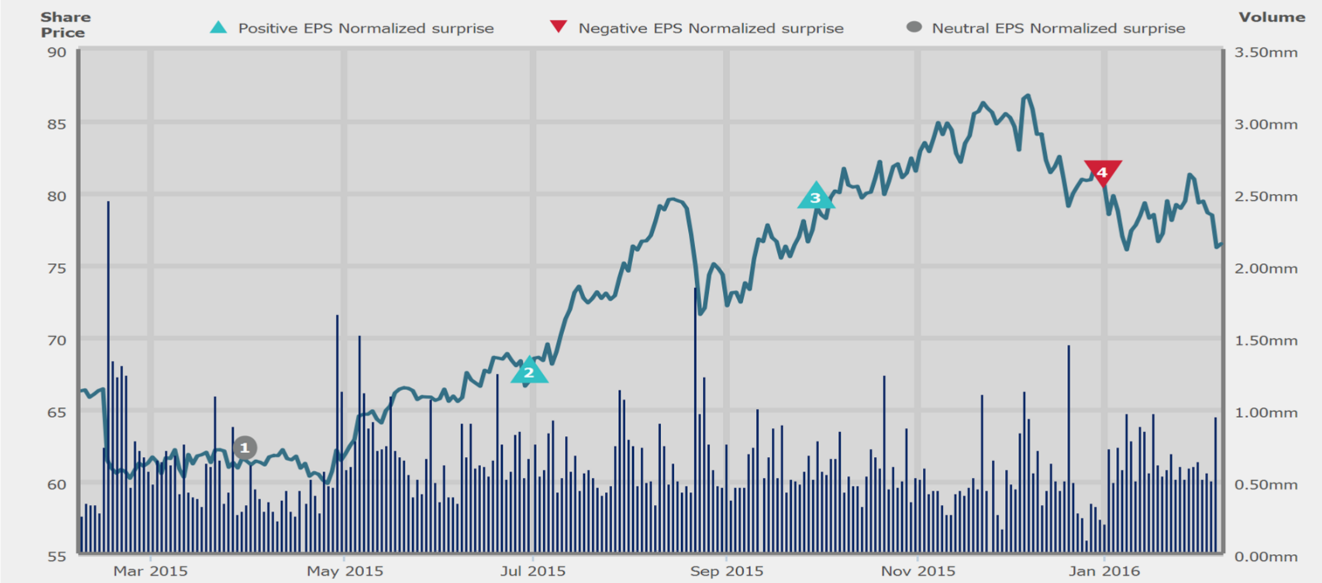
## *FQ1 2016 Earnings Call Transcripts*

Wednesday, April 27, 2016 12:00 PM GMT

## S&P Capital IQ Estimates

| | -FQ1 2016- | | | -FQ2 2016- | -FY 2016- | -FY 2017- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 1.21 | 1.52 | ▲25.62 | 1.44 | 6.05 | 6.94 |
| **Revenue (mm)** | 1878.93 | 2147.53 | ▲14.30 | 1759.60 | 6964.50 | 6947.61 |

Currency: USD
Consensus as of Apr-27-2016 11:03 AM GMT




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ1 2015** | 0.63 | 0.63 | 0.00 % |
| **FQ2 2015** | 1.60 | 2.07 | ▲29.38 % |
| **FQ3 2015** | 1.57 | 1.71 | ▲8.92 % |
| **FQ4 2015** | 1.55 | 0.97 | ▼(37.42 %) |

# Call Participants

## EXECUTIVES

**Alan B. Colberg**
*President, CEO & Director*

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

**Francesca Luthi**
*Executive VP and Chief Communication & Marketing Officer*

## ANALYSTS

**Jamminder Singh Bhullar**
*JP Morgan Chase & Co, Research Division*

**John Matthew Nadel**
*Piper Jaffray Companies, Research Division*

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

**Michael Edward Kovac**
*Goldman Sachs Group Inc., Research Division*

**Sean Robert Dargan**
*Macquarie Research*

**Seth M. Weiss**
*BofA Merrill Lynch, Research Division*

# Presentation

**Operator**

Welcome to Assurant's First Quarter 2016 Earnings Conference Call and Webcast. [Operator Instructions] It is now my pleasure to turn the floor over to Francesca Luthi, Executive Vice President, Chief Communication and Marketing Officer. You may begin.

**Francesca Luthi**
*Executive VP and Chief Communication & Marketing Officer*

Thanks, Keith, and good morning, everyone. We look forward to discussing our first quarter 2016 results with you today.

Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; and Chris Pagano, our Chief Financial Officer and Treasurer.

Yesterday, after the market closed, we issued a news release announcing our first quarter 2016 results. The release and corresponding financial supplement are available at assurant.com. As noted in the release, beginning in the first quarter 2016, we revised the presentation of Assurant's results to focus on housing and lifestyle. Net operating income will now reflect contributions from our ongoing business segments: Assurant Solutions, Assurant Specialty Property and Corporate as well as interest expense. Operating results will exclude Assurant Health runoff operations, the divested Employee Benefits business and the amortization of deferred gains from dispositions.

Related prior period results in the financial supplement and in the news release have been revised to conform to the new presentation. We believe these changes provide a more meaningful presentation of our financials and better reflect our go-forward strategy.

As we continue to work through our transformation, we expect to make additional enhancements to our reporting format. Today's call will contain other non-GAAP financial measures which we believe are important in evaluating the company's performance. For more details on these measures, the most comparable GAAP measures and a reconciliation of the 2, please refer to the news release and financial supplement available at assurant.com.

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

Now I'll turn the call over to Alan.

**Alan B. Colberg**
*President, CEO & Director*

Thanks, Francesca, and good morning, everyone. Overall, we are pleased with the strong first quarter performance of our housing and lifestyle businesses. Our results reaffirm our confidence in the future and progress against the financial targets we shared at our Investor Day as we strengthen our company for long-term profitable growth.

During the first quarter, we continue to execute our multi-year transformation strategy. For example, the sale of Employee Benefits to Sun Life Financial closed on March 1. We expect the dividend cash proceeds to the holding company starting this quarter, subject to regulatory approval.

The wind-down of our Health operations also remains on track. Membership continued to decline to only 26,000 covered lives as of March 31, down 93% since year end. In addition, claims development from 2015 policies continued to be in line with our assumptions. During the first quarter, we began work on the go-forward operating structure under Gene Mergelmeyer as he prepares to move into the Chief Operating

Officer role in July. Our goal is to leverage our enterprise scale and strengthen our competitive advantage across the global housing and lifestyle markets we serve.

In support of our transformation and growth strategy, last week, we announced Ajay Waghray will join Assurant on May 9 as our new Chief Technology Officer. Ajay joins our leadership team from Verizon with decades of global management and IT experience. At Assurant, Ajay will drive business alignment and strategy for technology across the global enterprise, and support our broader commitment outlined at Investor Day. We also expect to have the new CFO on board in the coming months. Until a successor is appointed, we appreciate that Chris will continue to perform these duties while preparing for his new role as Chief Risk Officer.

Within our segment, there are also many initiatives under way to strengthen our competitive position and expand our integrated risk offerings. At Assurant Solutions, we remain focused on executing our strategy of growing the Connected Living platform globally through innovative products and services as well as new partnerships. Longer term, we expect to double margins in Connected Living to 8% by scaling our offerings, driving operating efficiencies and managing declines in our legacy runoff businesses. These efforts, along with steady contributions from vehicle protection and pre-need, will position Solutions to deliver 10% average annual growth in net operating income over the long term.

At Assurant Specialty Property, we are expanding our fee-based, capital-light businesses. These offerings now account for 27% of the segment's revenue, and are expected to continue to grow at double digits in the long term. At the same time, we are actively managing the ongoing normalization of lender-placed with our expense management initiatives. These efforts will help Specialty Property to maintain at least a 20% operating ROE longer term.

Executing our strategy will require us to invest prudently in our targeted growth areas to further diversify and strengthen our housing and lifestyle businesses. For example, we acquired a company that provides insurance coverage for parcel deliveries via major shipping carriers. We plan to integrate their e-commerce capabilities into our other Assurant offerings to provide a seamless customer buying experience.

Last week, we also announced the purchase of renewal rights on 250,000 flood policies from Nationwide. This solidifies our position as the second-largest administrator of the National Flood Insurance Program in the United States.

Overall, we're making good progress in diversifying our offerings and establishing a more integrated operational structure. We believe this will help us build a stronger Assurant for the future.

At our March Investor Day, we introduced 3 key long-term financial targets to track our progress. During the next 5 years, we expect to do the following: deliver growth in net operating income; increase operating earnings per share on average by at least 15% annually; and expand operating ROE to 15% by 2020. These targets all exclude reportable catastrophe losses given the inherent variability of weather.

Now I'll highlight our performance in the first quarter 2016 in relation to these long-term financial targets. Net operating income, excluding reportable catastrophe losses, declined 8% to $110 million. While we expect earnings to be down for full year 2016 driven by the normalization of lender-placed, we are preparing the company for profitable growth in 2017 and beyond.

Operating earnings per share, excluding catastrophe losses, decreased 2% from first quarter 2015 to $1.66. A decline in earnings was partially offset by share buyback activity. Annualized operating ROE, excluding AOCI and catastrophe losses, was 12.3%, up from 12% at year end, reflecting a shift to more fee-based and capital-light businesses.

Looking at our capital position. Our balance sheet remains strong. At the end of March, holding company capital totaled $450 million. Consistent with our intent to return $1.5 billion to shareholders by the end of 2017, through April 22, we returned a total of $355 million via dividends and share repurchases, or nearly 25% of that goal. Overall, we're pleased with our progress during the first quarter. We believe our attractive business portfolio, combined with a more efficient operating structure, will produce more predictable diversified earnings, stronger cash flow generation and continued capital management flexibility.

And now I will turn to Chris who will review the results for the first quarter in additional detail. Chris?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

Thanks, Alan. At Solutions, we were pleased with the improvement in underlying results from the fourth quarter of 2015. Compared to first quarter of 2015, however, net operating income declined $7 million to $47 million, primarily due to the previously disclosed loss of a domestic tablet program and declines within our legacy runoff business.

We also incurred some additional on-boarding costs related to new mobile programs expected to ramp up later in the year. Pre-need recorded a onetime $4 million net reserve and DAC adjustment associated with a block of older policies that also contributed to lower results.

Revenue at Solutions increased 5% from the prior period in 2015, driven by a higher volume of covered mobile devices globally and strong growth in vehicle protection. This was partially offset by declines at certain North American retailers and the impact from foreign exchange.

For the full year, we continue to expect growth in net operating income weighted towards the second half of 2016. New mobile programs, improved international profitability and expense initiatives within Solutions will drive the increase.

Now let's look at Specialty Property, which delivered a strong quarter despite ongoing normalization in lender-placed. Net operating income increased to $76 million, reflecting lower general expenses, more favorable loss experience and lower reinsurance costs as our risk exposure continued to decline. Results also include greater contributions from multi-family housing and mortgage solutions.

The combined ratio for lender-placed and manufactured housing risk products was 80.7%, 140 basis points better than last year. This improvement was the result of a decline in the frequency and severity of non-catastrophe claims and lower general expenses. Despite lower premiums, we expect our expense ratio for these risk-based products to move toward the long-term targeted range of 42% to 44% by 2018, though the trajectory won't be linear.

Specialty Property revenue decreased 6%. The previously disclosed loss of client business, along with placement rate and premium reductions, lowered lender-placed premiums. Multi-family housing and mortgage solutions revenue partially offset the decline. Net earned premium and fees for multi-family housing were up more than 20%. We achieved this increase through our affinity channel and expanded relationships with property management companies.

Mortgage solutions revenue increased 28%, primarily from strong organic growth in field services. In the first quarter, these fee-based, capital-light offerings generated a pretax margin of 11%, an increase of 620 basis points year-over-year. Strong organic growth is helping build the additional scale needed to reach our long-term target margin of 15% to 20%.

For the year, we expect revenue and earnings to be down at Specialty Property, as lender-placed continues to normalize. Expense savings and growth in our fee-based, capital-light offerings are expected to partially offset the decline in net operating income.

Turning to Health runoff operations. The segment reported a first quarter loss of $27 million, which was in line with our estimates. This included $10 million in severance-related costs as well as other indirect expenses not included in the previously established premium deficiency reserves.

During the quarter, we were able to dividend $65 million from Health to the holding company. We expect to dividend an additional $410 million later this year. This is subject to regulatory approval, any changes in claims experience and the final payments from the 2015 ACA risk-mitigation programs.

As of March 31, we had $487 million of recoverables related to the risk mitigation programs at Health. In the first quarter, we received an initial payment of $29 million related to the 2015 reinsurance program, and we received another $38 million payment last week. HHS is expected to provide insurers with their final payment notifications by the end of June, and pay the remaining reimbursements starting in the third quarter.

Moving to Corporate. The loss for the quarter increased $10 million to $14 million, reflecting higher taxes and employee benefit costs. As a reminder, first quarter 2015 benefited from a tax consolidating adjustment that reversed itself during the course of last year.

For full year 2016, we continue to expect the Corporate loss to approximate $70 million. The actions we are taking to build the new business operating framework and to eliminate residual expenses from Health and Employee Benefits will support a more efficient operating model for the future.

Moving to capital. We ended the first quarter with $200 million in deployable capital. In addition to the $65 million from Health that I referenced earlier, we brought up $55 million in dividends from Solutions and Specialty Property during the quarter. We also secured $250 million in short-term financing to fund share repurchases. This provided additional capital flexibility until cash proceeds from the sale of Employee Benefits are received at the holding company.

These actions allowed us to pay $32 million in shareholder dividends and repurchased $258 million worth of stock. Through April 22, we bought an additional 807,000 shares, bringing the total repurchased year-to-date to 4.2 million. So far this year, buyback activity already surpassed the full year 2015 total. At the same time, we believe ongoing cash flow generation from Solutions and Specialty Property will provide continued financial flexibility to support our current and future opportunities in the housing and lifestyle markets.

Overall, we are pleased with our first quarter results, and are committed to executing our transformation strategy to ensure long-term profitable growth in housing and lifestyle.
And with that, operator, please open the call for questions.

# Question and Answer

**Operator**

[Operator Instructions] Our first question comes from the line of Mike Kovac with Goldman Sachs.

**Michael Edward Kovac**
*Goldman Sachs Group Inc., Research Division*

At the Investor Day, Assurant outlined targets in both Specialty Property and Solutions. And you've given us some updates in terms of how you're tracking in property, but we don't see the same sort of level of disclosure in Solutions. I'm wondering if you can provide us any incremental details in terms of the mobile margins. I know that the long-term target is 8% margin relative to 4% in '15, and the same on the vehicle combined ratio.

**Alan B. Colberg**
*President, CEO & Director*

Well -- Mike, and I appreciate the question. As we go through this year, we are going to continue to evolve our disclosures. And one of the challenges, as we evolve disclosures in Solutions, is just the complexity of the global business. And so that's why we're able to get property out this quarter and be comfortable with it. We're still working on getting the Solutions numbers out that we can be comfortable are repeatable. But I think, in short answer to your question, if we look at Connected Living, we had said last year, we were at about a 4% margin for the year pretax. We're still trending in line with that, and continue to expect, over time, we'll grow to that 8% margin that we've laid out in Investor Day.

**Michael Edward Kovac**
*Goldman Sachs Group Inc., Research Division*

That makes sense. And then, Chris discussed some of the ramp-up of expenses in Solutions related to the new program launches, which we know were a drag in the fourth quarter. When I look at the expense ratio, obviously, down sequentially and not really up all that much year-over-year. Can you give us a sense of how far through that ramp you are and sort of the scale of the expenses this quarter?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

So the expenses, Mike, in Q1, are still up but lower than they were in Q4. We'll incur some additional expenses in Q2, and then in the second half of the year, we'll start to see the program generate profitable revenue. Again, this is kind of a normal course. I think the first -- fourth quarter was a little bit of an anomaly in terms of the amount of the expenses, but I feel like we're back on track now to generate, again, NOI growth year-over-year. And then the longer-term 10% average NOI growth in Solutions.

**Operator**

Your next question comes from the line of Seth Weiss from Bank of America Merrill Lynch.

**Seth M. Weiss**
*BofA Merrill Lynch, Research Division*

If I could follow up on Mike's questions on Solutions. And just trying to get some context around the top line improvements in global Connected Living. If we look at the $660 million number in premiums and fees, it's running ahead of the quarterly pace of '14 and '15. So the top line trend there seems to be positive. But just trying to get context around how we think about that for earnings because, obviously, your best quarter in terms of top line was the last quarter and the fourth quarter. But that was a relatively poor earnings quarter.

**Alan B. Colberg**
*President, CEO & Director*

Yes. So a couple of comments. First of all, we -- as we've talked about on previous calls, we feel very good about the momentum and progress in the mobile business. If you recall, last year, we announced a variety of new clients and new programs, and that's what's starting to drive up the top line and will continue to drive up the top line. The challenge in the earnings is we also have in there the rotation that's going on with the legacy retailers that are in runoff, and that's a drag on the earnings; and then all the things that we talked about in the fourth quarter. But the momentum in the top line, I think, augurs very well for why we believe this business will continue to scale and drive toward that 8% margin for Connected Living over time.

**Seth M. Weiss**
*BofA Merrill Lynch, Research Division*

Is that top line indicative of how we should think about growth in earnings if we think about it longer term? I know there's complexities on the accounting in terms of what's flowing to the top line and what's flowing as rebates on the expense line.

**Alan B. Colberg**
*President, CEO & Director*

It is a complicated thing. I think the direction we've given is that margins are going to expand over time in Connected Living. It won't be exactly linear because as a program comes in or we have changes in what we're doing, that will cause some variability in that growth, but it will expand over time, an increasingly attractive business for us as we look forward.

**Seth M. Weiss**
*BofA Merrill Lynch, Research Division*

And if I could ask one, quickly, on Health. If my math is right, you have about $420 million left in recoverables from HHS if we back out the payments that were made in the first quarter and what Chris commented on the second quarter. So if we think about the $410 million that's left to upstream, how dependent is that on getting the full payment from HHS?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

So I think -- the way I think about the -- those numbers, the estimates around the recoverables are going to be -- when those receivables convert to cash, that's going to be the dividends that'll be available at Health. So we expect to hear at the end of the second quarter from HHS on the final numbers relative to our estimates. And then as those dividends come into the second half, we'll take them up. So it is the -- right now, the primary risk in terms of our -- the capital plan. We feel very good about actual results at Health, so the actual claims experience from the 2015 policies is now -- the range of outcomes is narrowing. And it's really -- and then remember, the risk adjuster estimate is the one that's got a little bit more potential variability because it's us relative to the market, as opposed to the reinsurance recoverable which is, effectively, a quota share.

**Seth M. Weiss**
*BofA Merrill Lynch, Research Division*

Do we want to think about that as both upside or downside risk? Or should we just really think about that as downside risk going into June?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

Again, we've taken in -- this is our best estimate, I guess, is the way to think about it. And feel with -- again, the big risk being absolute claims experience is getting -- is more and more in the rearview mirror, which is a good thing from a risk perspective.

**Operator**

Your next question comes from the line of Jimmy Bhullar with JPMorgan.

**Jamminder Singh Bhullar**
*JP Morgan Chase & Co, Research Division*

So the first question was just on margins in the Specialty Property business. It seems like margins this quarter were very strong. So to what extent do you think of that as a normal number versus maybe just benefiting from either benign weather or some -- something else?

**Alan B. Colberg**
*President, CEO & Director*

So I think we're obviously pleased with the strong results in the first quarter. But we did have very favorable non-cat loss experience, which was the benign weather. We have ongoing lender-placed normalization that will continue. One of the positives in the quarter is the improvement in the margins in our fee-based businesses, which continue -- particularly mortgage solutions continue to strengthen as we grow that business. But no, I think we had better than expected long-term non-cat loss in the first quarter.

**Jamminder Singh Bhullar**
*JP Morgan Chase & Co, Research Division*

Okay. And then on share buybacks, I think you mentioned deployable capital at the holding company of $200 million. Should we think of that as a limitation on your ability to buy back stock in the second quarter? Or would you have more capital available as -- depending on the timing of when some of the Employee Benefits proceeds move up to the holdco?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

So no, I wouldn't consider it a limitation. Again, we -- our strategy around buybacks didn't wait for the money to arrive at the holding company from the sale of the Benefits business. It is sitting in legal entities. We expect to request dividends in the second quarter from both Benefits and an ongoing dividend request from Health. We've also -- again, we took $55 million of dividends from the combined, from Specialty Property and Solutions. So again, the cash -- the generation of cash on the line of sight around those cash flows is becoming clearer. Also, keep in mind that in addition to the after-tax proceeds from the Benefits sale, we're going to have some capital release in the second half of '16 in Benefits. And then the $400-plus million of capital coming out of Health once we receive the reinsurance and risk mitigation recoverables.

**Jamminder Singh Bhullar**
*JP Morgan Chase & Co, Research Division*

And the cash proceeds from the sale would be moving up in the second quarter; and the capital release, a little bit later, right? And the cash proceeds being about $650 million?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

That's correct. So the -- again, a couple of things. So again, subject to regulatory approval, we're going to file our Q1 STAT returns and then make the request for the dividend. We're not anticipating a problem but, again, it is still subject to regulatory approval.

**Operator**

[Operator Instructions] Your next question comes from the line of John Nadel with Piper Jaffray.

**John Matthew Nadel**
*Piper Jaffray Companies, Research Division*

A couple of quick questions. I'm curious when you think about the $70 million operating loss you expect for Corporate in 2016. As we think further out, Alan, how much of that $70 million relates to residual costs from the Health and the Benefits business that you'd expect over time you can either take out of the organization or redeploy into growth areas?

**Alan B. Colberg**
*President, CEO & Director*

Well, let me start with kind of what we said at Investor Day, and then Chris, you can comment more on this. What we said at Investor Day is we have taken aggressive and decisive action to offset the residual costs or the legacy costs. And a good example of that was the hard pension freeze that went in place in March. We've also had a series of reductions as we've begun to really integrate our key support functions. And all of that gives us confidence that, over time, we'll be able to drive real expense efficiencies that will more than offset the residual expenses. But Chris, what would you add?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

Yes, just a couple of comments on that. So in the $70 million is the expectation we're going to assume some of the residual costs from the Benefits business for the quarters 2, 3 and 4. Health remains an ongoing operation. We'll address the residual costs from the Health segment starting in '17. So we have line of sight at what needs to happen but, as Alan described and as we talked about at Investor Day, our targets are much higher than that. Again, the goal being to build a more efficient operating model so that we can not just save money but support growth going forward.

**Alan B. Colberg**
*President, CEO & Director*

And the other thing I would add on this is we're really focused on setting the company up for sustained growth in earnings, which was what we've talked about as one of the 3 long-term targets for the company. The way we get there is through this evolution of our businesses and the focus of the resources on the attractive growth businesses, which you've seen us doing and ongoing, combined with the actions we're taking to get to a more agile, efficient operating structure. For example: the IT integration that we'll be able to drive now with Ajay coming on board to lead that; opportunities we have in front of us in procurement; and then the move to an integrated operating structure that Gene will lead effective in July. So we feel very good about the progress toward not just getting out the residual expenses but going far beyond that as we grow the company.

**John Matthew Nadel**
*Piper Jaffray Companies, Research Division*

Now that's helpful color, Alan. The second question, maybe it just comes down to timing. But I just want to make sure that there's no change here. And so I'll ask it this way: if I think about the $55 million of dividends up to the parent in the quarter from Solutions and Specialty Property, so excluding the Health piece, that's much less than 100% of the earnings from those 2 segments if I think about the earnings, either from fourth quarter with a 1-quarter delay, or if I think about 1Q's earnings. So is it just a matter of timing? Or is there some change to the expectation around how much in dividends you can get up to?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

No. No, change, John. I mean, this has been our typical pattern. It's back-end loaded. Again, the big risk in Property, typically being what does cat season look like. So -- but you're correct in saying that there are some earnings in the segments, in aggregate, available to be dividend-ed up from the first quarter. So I think that's a fair way to characterize it, in addition to what we've talked about with respect to the proceeds from Benefits, the capital release from Benefits and also the capital release from Health.

**John Matthew Nadel**
*Piper Jaffray Companies, Research Division*

Okay. And then Alan, you mentioned the -- having something to tell us about a CFO hire within the next few months. I'm just curious whether you've actually landed at or arrived at a decision, and it's just too early to be able to announce it, maybe this person is still in a position elsewhere; or is it just your expectation that the process will conclude within the next few months?

**Alan B. Colberg**
*President, CEO & Director*

So we're in the middle of a process. And I feel very good about the quality of the candidates that are interested in Assurant and that we're interested in. And we're confident that we'll be able to announce something relatively soon, and have that person on board in the coming months. In the meantime, though, we're very fortunate to have Chris in the chair. And Chris is an ongoing part of our management team, very crucial to our future. But no, I feel good about the process and expect to be able to say something in the near future.

**Operator**

[Operator Instructions] Our next question comes from the line of Mark Hughes with SunTrust Robinson Humphrey.

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

The mortgage solutions, of the 28% growth, how much of that was organic, roughly?

**Alan B. Colberg**
*President, CEO & Director*

All of it was organic at this point because we acquired those companies, field services, in particular, in 2013; and the other 2 were in 2014. Now the one thing I would say is we had a relatively softer first quarter a year ago. So that's part of the reason. But we still feel very good about the growth and momentum in those businesses.

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

The vehicle protection also got very good growth there. How much would you say is industry growth that's helping you there -- or do you feel like you're taking share?

**Alan B. Colberg**
*President, CEO & Director*

I think both of the things you just said are correct. We've had a very good strategy of focusing on particularly the car manufacturers, the OEMs. And you heard us announce a couple of those last year; we've won major new programs. So part of it is absolutely share gain and part of it has been the market. But very strong growth in that business over the last couple of years, something around, I don't know if we disclosed it, around 15% year-on-year. That's in our new supplement, right?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

And then just another thing on the vehicle business. Again, that is revenue growth, that will begin to earn 18 to 36 months out when the manufacturer's warranty expires. So this is future profitability from growth that's going on now.

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

Right. When I think about your Solutions business, if I think of it on, say, a pretax basis, you're pretty much at the run rate you were last year. Your guidance is for Solutions earnings to be up. I think you talked about the potential for ramp in the top line, given the new programs you've got coming online. Does your guidance look a little conservative or are there some additional expenses that might be offsetting some of that mobile ramp-up? How should I think about that?

**Alan B. Colberg**
*President, CEO & Director*

So I think -- just a couple of thoughts. The thing we're really focused on with that business broadly is the 10% average annual growth in net operating income over time. For this year, I think our outlook remains the same, which is first quarter was in line with our expectations. We really expect that ramp-up in earnings to happen in the second half of the year, so the full year earnings will be up. But that's -- with the visibility we have at the moment, that's where we're comfortable providing an outlook.

**Operator**

Your next question comes from the line of Sean Dargan with Macquarie.

**Sean Robert Dargan**
*Macquarie Research*

I just have a question about thinking of the walk-through of property results over the course of 2016. I know it's hard to model non-cat losses or the favorability of non-cat losses, but in addition to weather, is there anything that drove that in the first quarter? I think I heard something about vandalism. Are people not trashing their homes when they default on their mortgages as much? Or -- I'm just wondering if there's some sort of secular shift in distressed properties that's leading to a more favorable non-cat loss ratio?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

So I think -- again, there are 2 components. One is weather, non-cat weather related; and this other issue, fire and vandalism. And we're seeing slight improvements in the fire and vandalism components. So potentially, a sustainable reduction in the non-cat loss ratio, but it really is driven by mild weather. So I don't want to -- I wouldn't want to read into that too much. I don't want to get -- the business of predicting what Mother Nature is going to do out for the rest of the year. So -- but again, good results, a big driver of the positive outcome in the first quarter.

**Alan B. Colberg**
*President, CEO & Director*

Yes. The other thing I'd add is I think we feel we've made significant progress kind of transforming the lender-placed businesses and normalizes, both taking down our expenses, redoing our systems to really maintain our very market-leading, best-in-the-industry solutions. And the long-term guidance we've given around the risk expense ratio of 42% to 44%, we feel still is appropriate and it's not going to be linear quarter-to-quarter.

**Sean Robert Dargan**
*Macquarie Research*

Got it. And just thinking about the directional organic growth of mortgage solution revenue. Should we look to total mortgage origination estimates as the single biggest driver? Is there a correlation between total origination, including refis and purchase in a given quarter and what that revenue will be?

**Alan B. Colberg**
*President, CEO & Director*

So yes and no is the answer. We've said longer-term, we expect somewhere in the range of 8% to 12% kind of organic growth for our business over time in mortgage solutions. Some of our services are driven and linked to origination activity like the appraisals we do. But the majority of what we do is not related to new purchases. It's related to the houses that are in default or in REO-type status, if you think about our field services. So we are not that linked to mortgage originations. But we do expect over time, as we continue to gain share and demonstrate the value of our capabilities in our compliance, that we'll grow that business 8% to 12% a year on the top line.

**Christopher J. Pagano**

*Executive VP & Chief Risk Officer*

Yes, I think the key there is this -- the investment thesis around the mortgage solutions business was a share gain, leveraging our relationships with the mortgage servicers, expanding our product offerings. When we gain share, the growth will then allow us to improve operating margins and deliver the value proposition.

**Operator**

Your next question comes from the line of John Nadel from Piper Jaffray.

**John Matthew Nadel**
*Piper Jaffray Companies, Research Division*

I guess, the only question I have remaining is -- thinking about the normalization of lender-placed. And if we thought about it in the sense of a baseball game, how far into that baseball game are we? I mean, and I know the placement rate continues to come down very, very gradually. But what's also so interesting is that the tract -- the number of tract mortgages is really holding very, very steady. And I'm just -- I'm especially interested in what's going on underneath the hood of the tract mortgages, the ins and outs there?

**Alan B. Colberg**
*President, CEO & Director*

So I'll start by caveating our ability to estimate the timing of lender-placed normalization because we've struggled with that over time. But I think it's fair to say that we are more done than not done at this point. If you think about that placement rate, which was 2.24% in the last quarter, we're now expecting, and continue to expect, that we end up somewhere in the 1.8% to 2.1%. So we're closer to that than we were at the high point, which was almost 3%. In terms of the tract loans, we have, I think, the industry-leading solution and a great track record and we've been able to sustain our position in the market over time.

**John Matthew Nadel**
*Piper Jaffray Companies, Research Division*

Has there been any -- if we thought about an inflow and outflow around that $33.3 million or $33.4 million number, has there been any sort of underlying runoff that's been replaced essentially by taking on modest-sized portfolios?

**Alan B. Colberg**
*President, CEO & Director*

So I think if you look at the overall number, the loans are still moving around between the various servicers. We're well positioned, in general, wherever that happens. There is a gradual attrition in the backlog as the foreclosure crisis has worked through. But we continue to feel we are the preferred option in the industry. And in terms of your broader question, what we said at Investor Day is we think normalization pretty much is complete by 2018. And we're already seeing that, for example, as we talked about at Investor Day rate actions at this point are more the normal course of working with the regulators, just reflecting experience in markets. So we're already seeing some of that normalization pretty far along.

**John Matthew Nadel**
*Piper Jaffray Companies, Research Division*

And when you think about the -- the last point I wanted to get to was on premium rates. And I believe that you guys had mentioned a more modest rate reduction in the State of Florida. I don't remember exactly the number or the timing of that. Could you just remind us?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

No, again, Alan mentioned, we're in normal-course annual rate reviews with Florida, in particular, and New York as well. We've filed and are waiting to hear from Florida in terms of -- again, keep in mind, a couple of things. Again, we are an important source of protection, cat protection in the state. We have a very good relationship with the state. They appreciate our providing capital into that market. The other thing to remember is we haven't had a big storm in quite a while, and that's not going to continue. At some point, that will happen. We'll honor the claims. We'll provide the financial support to our policyholders and do what we're set up to do, which is protect homeowners.

**John Matthew Nadel**
*Piper Jaffray Companies, Research Division*

So is that Florida filing -- is that available? And if so, can you tell us what the rate action that you filed for is?

**Christopher J. Pagano**
*Executive VP & Chief Risk Officer*

We don't -- I don't have that information, John, I'm sorry.

**Alan B. Colberg**
*President, CEO & Director*

All right. I think that's it. Thank you for participating in today's call. We look forward to updating you on our progress in July. And as always, you can reach out to Suzanne Shepherd and Jisoo Suh with any follow-up questions. Thanks for everyone's time today.

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