S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

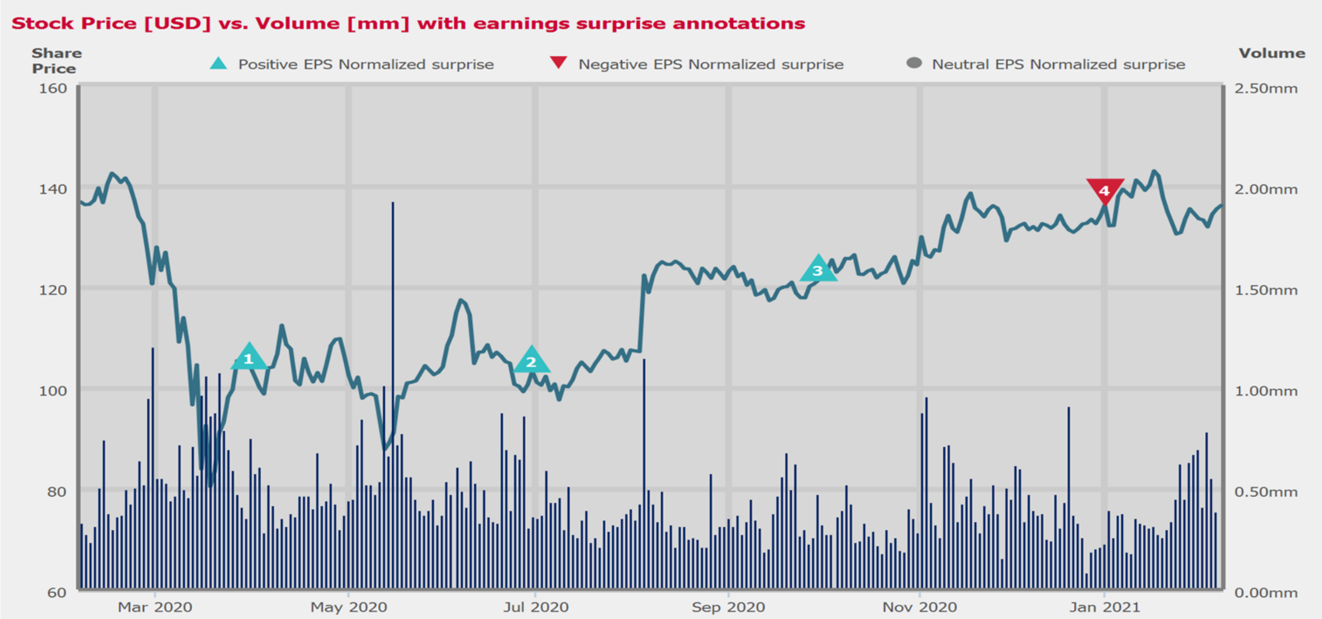
FQ4 2020 Earnings Call Transcripts

Wednesday, February 10, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.08	1.82	(12.50 %)	2.72	8.94	8.63	(3.47 %)	10.76
Revenue (mm)	2236.35	2555.10	14.25	2336.82	8838.20	10094.80	14.22	9363.04

Currency: USD
Consensus as of Jan-19-2021 11:04 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	2.43	2.64	1 8.64 %
FQ2 2020	2.12	2.75	2 29.72 %
FQ3 2020	0.99	1.41	3 42.42 %
FQ4 2020	2.08	1.82	4 (12.50 %)

Table of Contents

Call Participants	....	3
Presentation	....	4
Question and Answer	....	9

Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Richard Steven Dziadzio
Executive VP & CFO

Suzanne Shepherd
Senior Vice President of Investor Relations

ANALYSTS

Bose Thomas George
Keefe, Bruyette, & Woods, Inc., Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

Gary Kent Ransom
Dowling & Partners Securities, LLC

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

Presentation

Operator

Welcome to Assurant's Fourth Quarter 2020 Earnings Conference Call and Webcast. [Operator Instructions] It is now my pleasure to turn the floor over to Suzanne Shepherd, Senior Vice President of Investor Relations. You may begin.

Suzanne Shepherd
Senior Vice President of Investor Relations

Thank you, operator, and good morning, everyone. We look forward to discussing our fourth quarter and full year 2020 results with you today. Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; and Richard Dziadzio, our Chief Financial Officer.

Yesterday, after the market closed, we issued a news release announcing our results for the fourth quarter and full year 2020. The release and corresponding financial supplement are available on assurant.com.

We'll start today's call with brief remarks from Alan and Richard before moving into a Q&A session. Some of the statements made today are forward-looking. Forward-looking statements are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by these statements. Additional information regarding these factors can be found in yesterday's earnings release as well as in our SEC reports.

During today's call, we will refer to 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 yesterday's news release and financial supplement.

I will now turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Suzanne. Good morning, everyone. We're pleased with our performance for 2020, driven by our market-leading specialty P&C and Connected Living offerings, 2020 represented the fourth consecutive year of strong profitable operating earnings growth for Assurant. This was a significant achievement, demonstrating both the strength and resiliency of our business model and the dedication of our employees.

Guided by Assurant's core values, our over 14,000 employees demonstrated an extraordinary commitment throughout this pandemic to each other, our partners and the hundreds of millions of customers we serve around the world. During this most challenging of years, I'm equally as proud of the steps we took to further advance our long-standing commitment as a responsible employer, including additional actions to foster a more diverse, equitable and inclusive environment within our communities.

Some examples included: sustaining enterprise forms to openly discuss challenges still faced by many as we collectively combat racism and bigotry, expanding our supplier diversity and inclusion program to provide additional opportunities to increase the diversity of our vendor relationships and reaffirming our commitment to fair and equitable pay as we continue to review our policies and practices.

Already in 2021, we've launched several additional initiatives, including more comprehensive enterprise-wide diversity training and the mandatory adoption of diverse candidate slates and interview teams to ensure we hire the best candidates. We also expect to launch enterprise employee resource groups to support a more diverse workforce. We believe these diversity initiatives will help us better connect to each other and the consumers we serve.

Now let's move to our full year results. Net operating income, excluding reportable catastrophes, grew by 16% to $664 million, and earnings per share increased 17% to $10.80. These results were in line with the outlook we provided in November and far exceeded the initial expectations of 10% to 14% operating earnings per share growth we outlined at the beginning of 2020. This performance was driven by strong results in Global Housing and continued growth in Global Lifestyle, particularly Connected Living. Throughout the year, our balance sheet remained strong.

Combined, our 3 operating segments contributed a total of $821 million in dividends to the holding company. During 2020, we increased our common stock dividend for the 16th consecutive year and returned $455 million in share repurchases and common stock dividends. Our 2019 Investor Day objective of returning $1.35 billion by the end of 2021 is now 65% complete, and we expect to return the balance over the course of this year.

As we build a stronger Assurant for the future, we've continued to make investments in enhancing key capabilities and the rollout of new and expanded offerings to support our growing global customer base. Our superior customer experience remains a key differentiator. This was critically important during the pandemic and will remain vital as we emerge in this period. Specifically, our digital capabilities have contributed to new business opportunities and the longevity of our most important client partnerships across Assurant. At the end of 2020, our top clients had an average tenure of almost 17 years.

We continue to believe there are significant future growth opportunities within our mobile, auto and renters businesses, also taking into account the convergence of connected devices, cars and homes, which we refer to as the connected world. These opportunities also drove our decision to explore strategic alternatives for Global Preneed so that we can deepen our focus on our Lifestyle and Housing businesses and the connected consumer.

Excluding Global Preneed and catastrophe losses, these connected businesses represented 66% of our 2020 segment net operating income, roughly double that of 2015. Together, they're expected to generate strong above-market growth with offerings that have embedded earnings, complementing our specialty P&C offerings.

Given our compelling business model and expanded fee-for-service offerings is the key source to drive growth, we continue to believe our stock remains attractively priced. We currently trade at a discount to more relevant peers, including those in the home services market. However, we believe our consistent earnings growth, cash flow generation and competitive position are, in many ways, stronger and more sustainable.

Now let me share some 2020 highlights for each of our operating segments. Within Global Lifestyle, we increased earnings 7% to $437 million. This was driven by Connected Living, where earnings grew by 14% as we increased our mobile subscriber base to 54 million through new and expanded partnerships. Across Asia Pacific and North America, we added almost 2.7 million subscribers last year.

Portion of this year-over-year growth can be attributed to our alignment with new market entrants like U.S. cable providers and a new wireless carrier in Asia Pacific. We also processed 7 million devices through our Assurant trading facilities in 2020 and closed on the acquisition of HYLA Mobile.

As a leading provider of smartphone software and trade-in and upgrade, HYLA will further increase our scale, strengthen our capabilities and expand our client roster as we look to capitalize on the 5G upgrade cycle over the next several years. In our extended service contract business, we expanded our 10-plus year relationship with Lowe's home improvement with the introduction of Lowe's TechConnect, a white label version of our new Pocket Geek Home product providing tech support for smart home devices.

In Global Automotive, we've increased the number of vehicles we protect by nearly 13% to over $49 million since acquiring The Warranty Group, adding to the significant level of embedded earnings within the business. More recently, we've added scale and value to our OEM, TPA and national dealer clients through 2 acquisitions in key global automotive markets.

With American Financial & Automotive Services, or AFAS, we added scale in our direct-to-dealer channel and are already leveraging their best-in-class talent and dealer training programs. In the fourth quarter, we acquired EPG, a leading provider of service contracts and insurance sold through heavy equipment dealers and manufacturers, including Volvo and Daimler. Like AFAS, we believe this is a natural extension of our extended service contract business in a niche market we know well, which has attractive long-term growth opportunities.

Given our focus on the customer experience, we also continued to improve the claims process for vehicle owners through digital enhancements of our virtual claims inspection process, reducing inspection times and minimizing the amount of time without the vehicle.

Within Global Financial Services, we're excited to announce a new partnership with a large U.S. credit card issuer, where we're providing administration services for certain embedded card benefits that leverage our enhanced omnichannel customer experience capabilities. We're excited about the business' attractive growth prospects for the future.

Moving to Global Housing. We delivered net operating income, excluding cats, of $371 million, up $71 million from 2019. And our returns remained strong as our operating ROE, including cats, was 15% for the year. Within our lender place business, we had another strong year of client renewals, and we remain proud of our critical role in the mortgage lending process. We attribute the strength and longevity of our client relationships to our focus on customer experience as well as compliance and risk management.

These will only get stronger as we continue to make progress on our proprietary single-source processing platform, increasing productivity and improving customer experience over the long term. In multifamily housing, we increased policies 8% since 2019 and now protect over 2.4 million renters nationwide.

We've continued to invest in future growth, particularly through digital enhancements and innovations as the ongoing rollout of our property management solution, Cover360, continues to progress. We recently introduced a newly designed resident portal that makes renters' insurance compliance for residents simple and fully digital, which will ultimately increase attachment rates over the long term.

In Global Preneed, earnings were down year-over-year in light of the COVID-19 global pandemic and continued low interest rate environment. But overall, Global Preneed performed well in 2020 and has continued to produce strong cash flows with a high-quality $6 billion asset base.

To summarize, 2020 was a strong year for Assurant despite a challenging global environment. We took additional transformative steps to continue to build a stronger Assurant for the future and capitalize on the convergence of the connected world. As we look at 2021, we expect to provide our annual outlook once we complete our evaluation of strategic alternatives for Preneed. We have made progress exploring the potential sale of the business. To date, interest has been strong, and we expect to provide an update on our progress before our next earnings call in May.

With that said, as we look at Assurant today, including Preneed, we are on track to deliver against the financial objectives shared at our 2019 Investor Day, including 12% average annual operating EPS growth, excluding catastrophes for 2020 and 2021. As expected, this implies slower EPS growth in 2021, as we continue to invest for the future and build off of a stronger base in 2020 and also assumes a more normalized level of non-cat losses in Global Housing. In 2021, we will continue to prioritize investments in product innovation, further enhancing the customer experience and strengthening our social responsibility efforts, including actions to promote sustainability.

I'll now turn the call over to Richard to review fourth quarter results and our high-level view of 2021. Richard?

Richard Steven Dziadzio
Executive VP & CFO

Thank you, Alan, and good morning, everyone. As Alan noted, we are pleased with our performance for 2020, particularly amidst the pandemic. I'm now going to review our fourth quarter 2020 results and underlying business trends for the year.

For the fourth quarter 2020, net operating income, excluding catastrophes, declined by $3 million to $136 million, mainly due to a $28 million reduction in net investment income across all operating segments, partially offset by more favorable non-cat loss experience in housing. This drop in investment income reflects both the lower interest rate environment and includes a $12 million decline in income from sales of real estate joint venture partnerships. In the quarter, we also incurred $11 million of severance and real estate charges as we continue to manage expenses and evolve Assurant's workplace environment.

Now let's move to segment results for Global Lifestyle. The segment reported earnings of $88 million in the fourth quarter, down $9 million. The year-over-year decrease was primarily due to a $16 million decrease in net investment income spread across the businesses, half of which came from sales of real estate joint venture partnerships. Excluding the decline in investment income, segment earnings increased modestly. Underlying earnings growth was driven primarily by organic growth in Global Auto, while Connected Living earnings were flat compared to the prior year.

Results in Connected Living were driven by continued mobile subscriber growth, particularly in Asia Pacific and North America as well as contributions from the acquisition of HYLA in December. This was largely offset by lower mobile results in Europe, mainly from $5 million of non-run rate items. In addition, the segment had $4 million of severance and real estate charges in the quarter that we don't expect going forward.

Looking at total revenues. Net earned premiums and fees decreased by $37 million. This was driven mainly by a $78 million reduction in mobile trading revenue, primarily due to the contract change we disclosed in the second quarter. Excluding this change, Lifestyle revenues were up $41 million or 2%, driven by an 8% revenue increase in Global Auto from prior period sales of vehicle service contracts.

Overall, trading activity, which flows through fee income, was down year-over-year. However, as was the case in the last few years, we saw an uptick in December. This was driven by new phone introductions, greater device availability and contributions from HYLA during its first month with Assurant. Given the continued strong trading activity in January, we expect to see a sequential and year-over-year increase in volumes in the first quarter.

For the full year of 2021, we expect to see continued growth in Global Lifestyle's net operating income, with the growth more heavily weighted toward the second half of the year. Overall, earnings expansion will be led by mobile and will mainly come from new and expanded programs as well as contributions from recent acquisitions. We also anticipate improved profitability in financial services, which is positioned to steadily improve following the lower volumes and unfavorable loss experience seen in 2020.

We are cautiously optimistic, particularly as it relates to some of our travel-related programs, which were negatively impacted by the pandemic. We expect Global Auto earnings to be down modestly, reflecting the pressure from the low interest rate environment. Continued investments in our capabilities, product offerings and customer experience are also anticipated during the course of the year.

Moving now to Global Housing. Net operating income for the fourth quarter totaled $61 million compared to $73 million in the fourth quarter of 2019. The decrease was largely due to $28 million of higher reportable catastrophes. Over half of the losses were from Hurricane Zeta with the balance primarily related to claims from Hurricane Delta. Excluding catastrophe losses, earnings increased $16 million or 23% despite lower investment income of $8 million. The increase was driven by favorable non-cat loss experience across all lines of business. We saw reduced claims frequency and drove improved profitability in our sharing economy portfolio. Lender-placed results also reflected higher premium rates, mostly offset by declining REO volumes from ongoing foreclosure moratoriums.

Turning to revenue. Global Housing net earned premiums and fees decreased 3%. Similar to previous quarters, this was driven mainly by 3 items: the exit of small commercial, the insolvent lender-placed client and lower REO volumes. The decrease was partially offset by growth in both our specialty property and multifamily housing businesses. We expect Global Housing's net operating income, excluding cats, to be lower in 2021 compared to 2020, an overall increase in our non-cat loss ratio to more normalized levels and higher cat reinsurance costs will be the primary drivers. We expect both impacts to begin in the first quarter.

Regarding our cat reinsurance costs, in January, we completed approximately 2/3 of our 2021 catastrophe reinsurance program placement. As part of the placement, we secured additional multiyear coverage, resulting in approximately 52% of our U.S. program now benefiting from this feature. As expected, we saw an increase in the overall pricing of reinsurance in our purchases to date, which are multiyear layers help to offset.

As we finalize the remaining portion of the program in July, we will continue to evaluate the risks and rewards of purchasing additional reinsurance and alternatives that could reduce our risk. We are not, however, currently assuming any increased coverage. We expect some increase in REO volumes in the second half of the year. However, we do not anticipate volumes reverting to pre-COVID levels immediately, and volumes will be influenced by the timing of the foreclosure moratoriums.

Now let's move to Global Preneed. This segment reported net operating income of $9 million, a decrease of $7 million year-over-year. In addition to lower investment income, we had nearly $4 million of nonrecurring items related to a system conversion and updated assumptions for the earnings pattern of new policies. While the GAAP impact of these items was $4 million, the statutory impact was immaterial.

In addition, we experienced an increase in mortality trends as we exited the quarter. We continue to monitor trends and expect the increase in claims to continue into the first half of 2021. Revenue per Preneed was up 5%, primarily due to growth in U.S. sales, and face sales have increased significantly since the second quarter of 2020, so they remain below pre-COVID levels.

For 2021, Global Preneed will remain in our operating results until we conclude our evaluation of strategic alternatives. Overall, we expect 2021 Preneed earnings will be up slightly compared to 2020 reported results, illustrating the strength of the business, despite the ongoing challenge of the global pandemic. At Corporate, the net operating loss was $23 million compared to $22 million in the fourth quarter of 2019. This was primarily due to lower investment income and expense actions in the quarter. For the full year 2021, we expect the Corporate net operating loss to improve from 2020.

I also wanted to provide a quick update on our investment portfolio. The portfolio continued to perform well during the quarter. While investment income levels are low due to the lower short and longer-term yields available in the market and lower joint venture real estate income in the quarter, the strength of the portfolio can be seen through 3 items: the absence of defaults, the low level of credit downgrades and the increase in the value of those assets mark-to-market.

Turning to holding company liquidity. We ended the year with $407 million, which is $182 million above our current minimum target level. In the fourth quarter, dividends from our operating segments totaled $292 million. In addition to our quarterly corporate and interest expenses, we also had outflows from 3 main items: $147 million of share repurchases, $44 million in common and preferred stock dividends and $368 million related to the acquisitions of HYLA and EPG. As a reminder, we partially financed HYLA through the issuance of subordinated debt in the fourth quarter.

As we enter 2021, our capital and liquidity positions remained strong, supported by the robust cash flows generated by Global Lifestyle and Global Housing. For the year overall, we expect dividends to approximate segment earnings, subject to the growth of the businesses and rating agency and regulatory capital requirements. We have now returned approximately $880 million in the last 2 years, and we expect to complete our 3-year $1.35 billion capital return objectives to shareholders in 2021. Similar to prior years, the pace of buybacks is expected to be somewhat weighted towards the second half of the year. In the first quarter through February 5, we repurchased an additional 120,000 shares for $16 million. We have $770 million remaining in our share repurchase authorization, which includes the additional authorization recently improved our Board of Directors. Additionally, in January, we redeemed the remaining $50 million of our March 2021 notes.

Before closing, I also wanted to provide a reminder that our mandatory convertible shares will convert to common shares on March 15. The number of common shares issued will depend on our share price, leading up to the conversion date. At Assurant's current share price, we would expect conversion would result in the minimum issuance of shares.

In summary, despite a year of uncertainty, we took action to safeguard our employees to provide our clients with superior service and to maintain our strong financial footing. As we turn the page to 2021, we're focused on continuing to deliver profitable growth, enhancing our products and services and meeting our commitments to all stakeholders. We look forward to the year ahead as we continue to drive Assurant to a strong future.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Bose George with KBW.

Bose Thomas George
Keefe, Bruyette, & Woods, Inc., Research Division

I wanted to ask just about the potential sale of the Preneed business. There've been a lot of life insurance and annuity transactions recently. And just broadly, do you consider those to be good comps? And should we focus on the sales price being based on the multiple of book value as opposed to an earnings multiple?

Alan B. Colberg
President, CEO & Director

So first of all, it's important to reflect on our Preneed business. We have a unique and strong business. We have important distribution partners in our long-term contract. We have a block of business that's continued to perform well even through COVID-19. And what I would say on the process is we're encouraged. There is strong interest and robust interest in our company and in Preneed. And we're hopeful that we'll be able to announce something in advance of our Q1 earnings call.

In terms of valuation, I think it's not really appropriate to speculate on that as we're in the middle of the process. But I do think we're on track to deliver a good and strong outcome for our shareholders at the end of the day, and further reposition the balance of Assurant to focus on our growth engines around the connected world and our strong specialty P&C offerings.

Bose Thomas George
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. And just actually switching over to the extended warranty business. There have been a couple of headlines about competitors. There was the Home Depot-Allstate partnership. Can you just talk about competition in that space? And just remind us what the -- your targeted growth and returns in that business there?

Alan B. Colberg
President, CEO & Director

So extended service contracts are part of our Connected Living business, given the kind of convergence and overlap we see between mobile and service contracts. We mentioned on the call today that we've extended and deepened our relationship with Lowe's, which is an important service contract partner. And we talked in the prepared remarks about the inclusion of what we call Pocket Geek Home, which we're excited about as kind of a next-generation innovation. It's really around providing all the services to keep you connected for every connected device that you own. And so that's exciting.

But broadly, if you look at Connected Living, it was another year of strong growth, that includes in our service contract business. And we continue to believe and you see it with our success that we've been able to expand and grow and deepen. I think we've announced now more than a dozen or so new partnerships in the last 3 or 4 years really driven by our innovation and our strength in key global markets around the world like Japan and Europe.

So I think we feel good about the momentum, and we're going to continue to invest to differentiate. We -- for example, in 2020, we substantially increased our investment in digital midyear. Just not that we aren't already strong in digital, but we see the impact of COVID, and we wanted to make sure we're doing everything possible to drive a complete digital omnichannel experience for our customers.

Operator

Our next question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

First question, I guess, can we take a little bit more into kind of covered devices in mobile and kind of what's happening there, growth continues to slow. I know you mentioned a little bit how you expect some pickup in the beginning of the year. But just how do you think this plays out, particularly also related to Sprint, T-Mobile? How does that kind of play out through the year? When do we expect to see some kind of meaningful impact from that, at least from a growth perspective on top line?

Alan B. Colberg
President, CEO & Director

Yes. If I reflect on the subscriber count, certainly, 2020 was still a positive year. We grew the subscriber count despite COVID and despite the numerous disruptions in store closures that happened throughout the year. We had challenges in Latin America, the region that was most disrupted probably by COVID. But as I mentioned in the prepared remarks, we had strong growth in North America and Asia Pacific. And with the Sprint business, we are beginning to ramp that, and that will grow strongly as we go through 2021 and beyond. So certainly grew a little bit slower than prior years really because of COVID, but the underlying momentum and strength of that business remains strong.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then I guess my second question, just back to the Preneed. And you can just kind of remind us what are your thoughts as far as use of proceeds on the Preneed sale as you kind of think about it today?

Alan B. Colberg
President, CEO & Director

Yes. Brian, I think the most important thing on Preneed is, we're very hopeful that we'll get to a great outcome for our shareholders as the first most important thing. If you look at our history, we have a strong track record of disciplined capital management and deploying capital to support and grow our company over time. Normally, we focus first on organic growth and ensuring that we're funding the growth that's happening.

We have strong underlying organic growth across our company. And then we look at M&A and return of capital. With M&A, as a reminder, we have a very high hurdle. We look at cash-on-cash IRR. And we're really just focused in our key growth engines of the connected world. So that's mobile, auto and renters. That's where the bulk of that would be. And if we have excess capital, our track record of returning it to shareholders over time is strong.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And just one last one. I'm curious, renters insurance marketplace, can you talk a little bit maybe about the competitive environment there? I mean we hear a lot about some of these insurtechs very active in that marketplace. Could you give a little perspective on what's going on there?

Alan B. Colberg
President, CEO & Director

Yes. If you look at our business, we continue to grow and gain share. Our policies were up 8% last year. So we added net something like $200,000 policies, give or take, to $2.4 million. And we've really invested over the last couple of years. If you do a side-by-side of our purchase experience digitally, it's as good and easy to use for consumers as any digital experience that's out there from any company. And then importantly, in the property management channel, we're rolling out Cover360, which really will drive attachment over time. It makes the whole process of compliance and having the appropriate coverage easy.

So we feel good about our momentum. We continue to grow and gain share relative to the market. If you think about multifamily, it was disrupted by COVID more than many of the markets in the U.S. Just given the challenges with renters, we had a lot less mobility last year of people moving. And despite that, we grew policies 8%. So it's a good business. We continue to gain share, and we continue to invest to differentiate our offering.

Operator

Our next question comes from the line of Mark Hughes with Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

In the Global Auto business, what are the prospects there for growth? I think you talked about the net income being down on interest rates. I'll ask a question I think I've asked before. If interest rates are low, can you adjust your offering, adjust your pricing perhaps to compensate for that? And -- that question and then kind of the -- what should we think about top line in 2021 in Global Auto?

Alan B. Colberg
President, CEO & Director

So Mark, I appreciate that. Maybe I'll start and then Richard, you can go deeper on the question around investment income. If you look at that business, since we closed on The Warranty Group, we mentioned this in the prepared remarks, we've added something like 13% to our service contract count. And that's over the last couple of years. That bodes very well for the future. Those are embedded future earnings that are going to come through.

And if you look at the underlying growth in the business before considering the investment income impacts, this is a longer-duration product than others in our portfolio other than Preneed. There's strong underlying growth, really driven by expanding share in our key dealer relationships and beginning to drive some of our capabilities from mobile into the business.

We've also recently announced partnerships in Europe, and we've announced previously a partnership in China around electric vehicles. That's another source of innovation growth. So I think put aside the kind of short term what shows up in our earnings, the underlying strength is strong. But Richard, you should comment more on investment income and how we think about that.

Richard Steven Dziadzio
Executive VP & CFO

Sure. And just to add on to that, I mean, only part of the earnings, obviously, are coming from investment income. And the overall portfolio, I would say, is more shorter in duration relative to Preneed. You think about Preneed, having a duration maybe of 10 years, think about half that or less for Auto. So the current drop in interest rates has had somewhat of a headwind impact on us. Who knows how long that's going to last, right?

But in terms of moving forward, I think for a large part, we've taken into account the short-term interest rate impact this year so far. So that -- I don't think short-term rates are going to go any lower -- much lower. So I think that's all settled in, and that's just cash coming in and out of the enterprise there. And then from a longer-term basis, I think your question is a good one. As things move on, if interest rates stay low, it's a competitive environment. So we'll see with pricing, but that typically would happen in any market where there's some sort of interest rate spreads embedded in products. So over time, that should reprice. Obviously, Mark, there's typically a lag in things like that.

In terms of 2021, we feel really good, as Alan said. I mean, the business has good momentum. We've grown the number of protected vehicles that we've had. Our recent acquisition of EPG bodes well for the synergies and integration that we have with that company into ours and future growth. AFAS, this summer as well, good, strong acquisition for us. So we think we're the strongest player, one of the strongest players in the market and positioned to win as we go forward.

Alan B. Colberg
President, CEO & Director

And Mark, maybe the other thing I'd add on investment income, apologies. If we look at Preneed and the process we're in and assuming we get to a good outcome there, Preneed is something like 40% or 45% of our total investment portfolio and even more of the volatility just given long duration. So one of the other benefits of successful outcome of Preneed is to even further reduce our exposure to interest rates as a company, which will create more stability in the future.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

On the non-cat losses in Housing, is that an industry phenomenon, do you think COVID related or just more broadly weather related or perhaps the underwriting phenomenon? How do you view that?

Richard Steven Dziadzio

Executive VP & CFO

Yes. Good question. We have had lower non-cat loss ratio this year, a lower non-cat loss ratio relative to last year. And that comes from a couple of different parts. I think the first part is small commercial. We exited that business, which was weighing on our overall non-cat loss ratio.

The second part would be the underwriting we've done and improvements within the Specialty Property and particularly the sharing economy part of the business with the growth there that we've had and some nice results there. So those 2 items, I would say, are very particular to Assurant. So not a phenomenon across the market.

And then we've also seen claims come down and frequency of claims this year. We're not so much thinking it's due to COVID as we're thinking it's really due to kind of weather, more or less weather and the wind, the flood and things like that this year. We did have a little more increase in the cats that we've had this year. So maybe there's a play against those two as well.

Looking forward, we think that, as we said, in 2021, the non-cat loss ratio will move up, but we don't think it's going to move up that much. It's probably potentially a slow conversion towards where we were in the past. But given what we've done in our underwriting, the movements that I discussed a moment ago, we think we're going to be in a better place next year than we were historically. So move up a little bit progressively, but not as much as -- not to where we were in 2021 is our prediction.

Alan B. Colberg
President, CEO & Director

Yes. Mark, the other thing I would add to summarize kind of what Richard said, more than half of our improvement, we believe, has been driven by actions we have taken the ones Richard mentioned. The other thing we've been investing heavily in is AI and automation, which has the benefit of driving better CX as well as improved efficiency. So there is some effect of what's happening in the industry, but we feel most of this is driven by us. And we do expect some step-up in '21 given 2020 was particularly low. But we feel good about the actions we've taken to drive improvement here.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then, Alan, maybe a little bit of the softball, but you said you had mentioned how you feel like Assurant trades at a discount to peers in the home services market? Any elaboration you'd like to give on that?

Alan B. Colberg
President, CEO & Director

Yes. One of the things that we look at is, if you really step back and look at our company, we've -- over the last 4 or 5 years really evolved to be much more of a fee income service business type company. We have a track record of strong profitable growth. If you look at it, we've delivered now, we mentioned on this call, 4 years in a row of strong operating earnings growth. We have a cash flow ability, as we've said many times through the year is, if we earn $1 at our segments, we can, on average, get that to a holding company.

And if you look at that, if you look at the competitors that we're evolving into, people in the home services market or others, they all trade on multiples of EBITDA that are in the mid-teens, and we are well below that. And so we continue to look at how do we help our investors better understand just the quality of our franchise. The 17-plus year client tenure that we mentioned earlier, the investments we've made to differentiate, and over time, we continue to believe our stock is attractively priced, and we're going to work on continuing to evolve our metrics and disclosures and how we deploy capital to maximize the value for our shareholders.

Operator

[Operator Instructions] Our next question comes from the line of Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

You mentioned -- Richard, you mentioned in your comments, the headwind in Europe, a non-run rate item of about $5 million. Was there anything else in Europe that besides that, that you would point to that could cause headwinds there?

Richard Steven Dziadzio
Executive VP & CFO

No, I think the biggest part of the headwind was really in terms of them positioning themselves for 2021 and for growth. I mean overall, they had a good year despite the pandemic. And we do think that going forward, the profitability is going to increase over Q4 in Europe. So we really do think it was kind of a onetime thing where there were several small items that we do not expect to recur.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Great. And this is kind of a follow-on to prior question on Housing, a little bit of a different angle, on the frequency benefits that you've seen again. And you mentioned in prior calls recently that theft and vandalism has been down. I guess I'm curious, is that COVID-related theft and benefits -- theft and vandalism down? Or is that more of what Alan was saying kind of things that you've done to re-underrate that have helped that piece of the business?

Alan B. Colberg
President, CEO & Director

The other thing I would add on that one and then Richard, feel free to add on to it, is our book today is very different than 5, 6, 7 years ago. If you think about after the last housing crisis, we had a lot of vacant and foreclosed properties in the portfolio. That's where you tend to see that the most. Today, we're in a strong housing market, and we're really providing a backstop when people aren't able to get coverage. So you normally see lower theft and vandalism over time when you're in a stronger housing market anyway. So I think that's part of what we're seeing. But I don't know, Richard, would you add anything else?

Richard Steven Dziadzio
Executive VP & CFO

No, that's exactly right, Alan. I think the other thing is we were seeing a trend coming down even prior to the pandemic. So we're not thinking the pandemic. I mean there could be a small part of that, but that's not something that is a driver.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Great. And then last one for me on the Global Financial Services area. You've talked a bit about the impact from COVID there from balances being down. I guess, has that turned around any? And then on the legacy business there, are we at a trough that you talked about what you expect for this year to be better than last year, but how much of that is the turnaround from COVID? And again, on the legacy business, are we at the bottom there?

Alan B. Colberg
President, CEO & Director

I think in that business, I'm really encouraged about the momentum we're starting to see. When we acquired The Warranty Group, they had just signed a significant new client in that space. And then as we announced on the call earlier today, we've just signed another new client. So we've got several potential growth drivers in the future that makes us pretty optimistic about that.

In terms of the areas that have been disrupted by travel -- COVID, that's really travel. And we'll see how that plays out this year. But we expect to see improvement over time. And the new clients and the new offerings over the last couple of years have us in a much better position for this business to grow and contribute in the coming years.

Operator

Our next question comes from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to ask on the severance and real estate change, whether that represents any kind of employee business model change? And if so, is there more to come?

Alan B. Colberg
President, CEO & Director

Yes. Maybe, Rich, let me start just briefly. Yes, I'll start briefly, and you can provide more. At a high level, we're looking at kind of the future of work and what those models are. We've shown -- we had about 30% of our employees virtual pre-COVID. And post-COVID, we'll, no doubt, have a higher percent. So we are looking at that and evaluating it. But I think the main drivers really are ongoing expense management and just aligning our resources with the growth of the company. But Richard, what would you add, particularly on the real estate?

Richard Steven Dziadzio
Executive VP & CFO

Yes. I think when we think of real estate, I think of the word facilities. So it is linked to our facilities and how we're using our facilities going forward. We had a couple of leases that were coming due early in 2021. We're not going to be going back to that space. We'll be getting new space or working from home in a new work environment. So we just had to take an acceleration of the expense on that leasehold improvements and so forth.

So it's really positioning when we get to the fourth quarter, we start to position ourselves okay next year, what's our footprint, where should we be from a headcount point of view, but also from a facilities point of view. So we don't think that the actions we take in fourth quarter are harbinger of things to come. It's really just a onetime $11 million total impact which is why we called it out as such.

Gary Kent Ransom
Dowling & Partners Securities, LLC

All right. That's helpful. Another one on the -- you mentioned competition in Lifestyle. I wonder the competition on Global Housing in the lender-placed business. Obviously, you said you renewed a lot of contracts. But can you give us a sense of what goes on in those renewals? Are other competitors trying to get in on it? I assume that happens regularly, but I was wondering whether it's any more intense or has changed at all?

Alan B. Colberg
President, CEO & Director

I think the important thing with that business as well of all of ours, it is competitive. That's just the reality of the markets that we all compete in. With that said, we have a really strong position there. We've invested and continue to invest in differentiating our capabilities around compliance, around customer experience. We're early in this rolling out our SSP, our single-source platform, which really differentiates our tracking capabilities.

And as we mentioned, we've renewed something like 85% of our relationships over the last 2 years, many of them early as we prepare to work with our clients on the conversion to our new tracking system. So I don't see the competitive pressure changing a lot. It's always there. But we've shown our ability. If you look at the last decade, we've been able to grow that business dramatically, really driven off of the value that we're creating for our partners and for our customers.

Gary Kent Ransom
Dowling & Partners Securities, LLC

And in that business, you're going through this process of reducing risk and becoming more fee oriented. And Preneed, we kind of assume that, that's gone, which has some volatility on the investment side. Global Housing is the last business with some volatility embedded in it. Is this a strong enough business for you that you're content with handling that volatility? Or is there something else that you might think about in the future?

Alan B. Colberg
President, CEO & Director

Yes. A couple of comments on that. So if we look over the last 5, 6, 7 years, we've significantly reduced our exposure through the purchase of reinsurance. If you go back to 2012, '13, we were about $240 million of retained -- of that exposure. We're down, down to $80 million. We've also morphed our reinsurance tower, more than half of its multiyear now, which also creates a lot of stability. And we've also been pruning nonstrategic risk. So a great example of that was our exit of small commercial a year or so ago.

So when we look at it, we'll always look at their other actions that could further share some of that cat exposure away. But if we look at the overlap between our Housing business and our Lifestyle business, it's strong. If you think about the convergence around the home, the device, the car, we're starting to see opportunities to roll out what we do in Lifestyle into Housing. A lot of our mobile capabilities are really relevant in renters and in the connected home.

Also, as we mentioned in the prepared remarks, even in a relatively high cat year, we had a 15% ROE with cats in Housing. So it's generating strong earnings, lots of cash to reinvest, and continues to be an important part of our strategy and portfolio, with the caveat that we have reduced our cat volatility a lot, and we'll continue to look at ways to reduce that cat volatility.

Richard Steven Dziadzio
Executive VP & CFO

And if I could just add to that. I mean, as Alan says, to reduce our cat volatility, we do get the question, and we do look at it every year. I mean, obviously, this year was a little bit special with the pandemic and with the amount of capital that was in the reinsurance market, we've seen that capital now come back. So we'll keep looking at things like bringing down the retention, purchasing aggregates and doing other things, quota shares or whatever, that could reduce the volatility a little as we go forward. In my prepared remarks, I said we can't plan on anything and we're not planning on anything to 2021 but as Alan said, we are keeping our eyes wide open to opportunities there.

Operator

Our last question comes from the line of Mark Hughes with Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Another one of my usual questions, which is when we think about the lender-placed placement rate, obviously, delinquencies are quite high. You've talked about the REO program. You can certainly understand that being under pressure with the foreclosure moratorium in place. But how about just these higher delinquencies?

Presumably, the escrow funds are getting used up. And if people aren't paying their mortgages, a lot of them are not paying insurance. How do we think about that? It seems like you've had very limited impact so far, but these have been delinquencies that have been in place since early mid last year. It seems like they'd be falling into your bucket pretty soon, but apparently not. So I'm just curious what's going on there?

Alan B. Colberg
President, CEO & Director

Yes. Mark, I think the important way to think about lender placed is whether the housing market weakens or not, we don't know. And we're not seeing a lot of real evidence that the housing market is weakening. But through the actions over the last 4 or 5 years, we've now gotten lender placed to where it's roughly stable on earnings ex cat, even if the housing market remains strong. And obviously, if the housing market does weaken at some point, we're going to be there to provide the support to the mortgage market that we've historically provided.

So we don't know what might happen this year. There is always a lag. It depends a lot on what happens with the government foreclosure moratoriums. But we've certainly called out that our business has been impacted negatively in 2020 and continuing with just the lack of REO volume given the foreclosure moratoriums that are going on. But the business is well positioned. And if the market does weaken, we're going to be there, and we will support the mortgage industry through that.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Now if we continue to see these delinquencies, the 90-day plus delinquencies are up substantially and maybe they're tapering a bit, but tapering slowly. Does that have an impact on the business?

Alan B. Colberg
President, CEO & Director

It really -- as I mentioned, it really depends on what happens with foreclosure moratoriums. If there is weakness in the housing market, eventually, we should see that flow through into our business. We just -- it's hard to say when, given what's happening in the broader economy and with our government dealing with COVID.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

So I guess it's really the foreclosure numbers that are more relevant for your business?

Alan B. Colberg
President, CEO & Director

Well, no, we -- our business is driven by many things, but where we've seen the biggest kind of short-term negative impact is just the foreclosure moratoriums, and therefore, properties aren't moving through the process that you would normally have seen. But again, we're well positioned if the market does weaken, and it's allowed to function like it historically has. We're well positioned to benefit and support that.

Richard Steven Dziadzio
Executive VP & CFO

And then as I said in my prepared remarks -- as I said in the prepared remarks, Mark, we're not counting on any sort of big return in REO volumes next year, given the forbearance, moratoriums and the extension of them. So we do think that over time, when the market kind of gets back to a balance, when we get past the pandemic and the moratoriums, it will start to increase, maybe second half of the year a little bit, probably more into 2022 as we kind of get back to, I don't know, if we call it an equilibrium, but more normal times.

Alan B. Colberg
President, CEO & Director

All right. Excellent. And if I just take a moment and reflect more broadly, we're really proud of 2020 and what our employees did to support our customers and clients through COVID. It was a strong growth year for us, both in Connected Living and then broadly in Housing. We continue to execute against our long-term strategy. You heard us say that we still expect to deliver on the 2019 Investor Day objectives, including the 12% average annual operating EPS growth in 2020 and '21.

And we continue to gain share, which really augurs well for the future as we invest to differentiate and encourage our clients to add more of our capabilities into their products. And then finally, we mentioned it that we're encouraged by the progress on the potential sale of Global Preneed and hope to have some positive outcome to share shortly. So thank you for participating in today's call.

To summarize, we're really pleased with our performance in 2020, and we're going to continue to focus on building a stronger company in 2021. Following the conclusion of our evaluation of strategic alternatives for Global Preneed, we are planning to provide our full year outlook for 2021 at that point. In the meantime, please reach out to Suzanne Shepherd and Sean Moshier with any follow-up questions. Thanks, everyone.

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