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Earnings Call

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Call Participants

EXECUTIVES

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President, CEO & Director

Richard Dziadzio

Suzanne Shepherd

ANALYSTS

Brian Robert Meredith
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Presentation

Operator

Welcome to Assurant's Second Quarter 2023 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 and Sustainability. You may begin.

Suzanne Shepherd

Thank you, operator, and good morning, everyone. We look forward to discussing our second quarter 2023 results with you today. Joining me for Assurant's conference call are Keith Demmings, 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 second quarter of 2023. The release and corresponding financial supplement are available on assurant.com. We'll start today's call with remarks from Keith and Richard before moving into a Q&A session.

Some of the statements made today are forward-looking. Forward-looking statements are based upon our historical performance and current expectations, and 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 and financial supplement as well as in our SEC reports.

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

I will now turn the call over to Keith.

Keith Warner Demmings
President, CEO & Director

Thanks, Suzanne, and good morning, everyone. Our results in the second quarter were strong and well ahead of our expectations, with adjusted EBITDA, excluding cats, growing 21% year-over-year or a total of 6% on a year-to-date basis. Results were largely driven by continued momentum in Global Housing, primarily from higher top line growth and more favorable loss experience from prior period development on claims. Our performance is a testament to the resilience of our global business model, our compelling client offerings and steadfast focus on operational excellence.

Looking at our business segments. Global Housing adjusted EBITDA increased 49% year-to-date, excluding catastrophes. These results reflect actions taken to transform our Housing business, including focusing on product lines where we have a strong right to win, dramatically reducing noncore areas and our international catastrophe exposure, and aggressively deploying digital solutions to improve customer experience while driving greater operational efficiencies. This underscores our ability to quickly respond to ever-evolving market dynamics, driving continuous improvement and better performance over time.

During the first half of 2023, top line performance in our Homeowners business increased 18% year-over-year. This reflects higher average insured values and state-approved rate increases to account for higher claims severities from inflationary factors in lender-placed. Policy counts increased double digits this year from expanded loan portfolios of new and existing clients. While policy growth has been a contributor so far this year, we expect it to level off from the first half of the year.

In our Renters business, our property management company distribution channel has shown strong policy growth year-to-date, increasing 14%. This has been driven by the ongoing rollout of our Cover360 solution, one of the many long-term investments we've made in Renters that has consistently added value to our PMC partners and customers over the last several years. Our strong growth within the PMC channel has helped to diversify profit pools to partially offset lower contributions from our affinity partners, along with higher non-cat losses, which have returned to more normalized levels.

In summary, we're very pleased with Global Housing's performance year-to-date and expect strong year-over-year earnings growth to continue into the second half of 2023.

Turning to Global Lifestyle. Underlying segment results were solid and demonstrated steady improvement from the second half of last year. Lifestyle earnings for the first 6 months of the year have increased $34 million or 9% over the second half of last year, from improved Connected Living results. Within Connected Living, we continue to invest in our technology platforms as we deepen our focus on product innovation and evolving our service delivery capabilities to improve customer experience. Our focus on innovation and global trade-in capabilities has continued to drive a significant level of interest from existing and prospective mobile partners. As we continue to realize ongoing efficiencies, we've implemented [expense] actions to mitigate macroeconomic headwinds throughout our global operations.

In Europe, these actions have had a positive impact, ultimately helping to stabilize earnings and allowing us to remain focused on growing the top line. Within extended service contracts, we've made significant progress with our partners in executing large-scale protection and administration programs. In addition, after several quarters of elevated claim severity, we've seen an improvement in the second quarter loss ratio due to rate increases with several clients.

In our Global Auto business, consistent across the industry, our repair costs have continued to increase from inflation. We've taken decisive actions to improve performance. For example, we've implemented prospective rate increases with several key clients, and we're also partnering with our clients to identify cost savings on claims to improve loss experience for programs where we hold the risk. It's difficult to predict the timing of an earnings inflection point, but we expect to see continued improvements as new business earns through, although improvement may take several quarters to materialize.

Overall, Global Lifestyle earnings were in line with our expectations for the first half of 2023. And while we work to create new vectors of growth for Lifestyle, we now anticipate Global Lifestyle's adjusted EBITDA will be down modestly for the full year. This is mainly due to the headwinds in Global Auto we just discussed and lower international contributions, primarily from Japan.

Reflecting on the first half of 2023, our results have demonstrated the attractiveness of our compelling business model with clear competitive advantages, including: alignment with global market leaders across lines of business; leadership positions with scale advantages in attractive and growing lifestyle and housing markets; demonstrated ability to innovate and differentiate through specialized solutions; and a strong track record of taking decisive actions to overcome market challenges and drive performance. Combined, Global Lifestyle and Global Housing should continue to generate strong returns and cash flow, highlighting the strength and resiliency of Assurant.

Prior to moving to our enterprise outlook and results, I want to take a moment to discuss the progress we've made through our sustainability efforts, a key differentiator for Assurant. In June, we published our 2023 sustainability report, reaffirming our long-term priorities around talent, products and climate. The report highlights our progress in reinforcing our company culture and leveraging ongoing employee listening and feedback to help support our global diverse workforce. The report reaffirms our 2020 to 2025 ESG strategic focus areas of talent, products and climate to build a more sustainable future together with our clients, customers, employees and suppliers. We continue to view our commitment to sustainability as a competitive advantage that delivers short and long-term business value. Of note, we achieved our 2025 supplier diversity target 2 years ahead of schedule. We increased our global gender diversity overall, we expanded coverage for electric vehicle protection products and we repurposed 22 million mobile devices globally.

Now let's turn to our enterprise outlook and capital. Given first half results and anticipated performance for the remainder of the year, we now expect adjusted EBITDA to grow high single digits, excluding cats. This represents an increase from our original expectation of low single-digit growth. Adjusted EPS growth is now expected to approximate adjusted EBITDA growth, each excluding reportable catastrophes, an improvement over our previous expectations for EPS growth to trail our EBITDA growth. The increase is mainly due to our higher-than-expected adjusted EBITDA growth, which is now outpacing the increases to depreciation and tax expenses.

From a capital perspective, we upstreamed $180 million of segment dividends during the quarter and $292 million year-to-date, nearly half of segment adjusted EBITDA, including cats. We ended the quarter with $495 million of holding company liquidity, a significantly higher level than at the end of the first quarter. As expected, we resumed share repurchases during the second quarter, repurchasing $20 million of common stock as well as an additional $10 million throughout July.

For the remainder of the year, we would expect to gradually accelerate our level of buybacks, with the majority weighted toward the fourth quarter, keeping in mind third quarter is hurricane season, and we will look to preserve our capital flexibility. For 2023, we don't currently expect to exceed the 2022 underlying buyback activity of $200 million.

Overall, it's been a strong first half of the year and we're well positioned for the full year. In both Housing and Lifestyle, it will be critical for us to continue to execute through innovation and enhanced customer experience for our clients and their end consumers, which is what differentiates Assurant and supports long-term growth.

I'll now turn the call over to Richard to review second quarter results and our 2023 outlook in greater detail. Richard?

Richard Dziadzio

Thank you, Keith, and good morning, everyone. For the second quarter of 2023, adjusted EBITDA, excluding reportable catastrophes, totaled $337 million, up $59 million or 21% year-over-year. And adjusted earnings per share, excluding reportable catastrophes, totaled $4.09 for the quarter, up 26% year-over-year.

Let's start with Global Lifestyle for our segment results. This segment reported adjusted EBITDA of $197 million in the second quarter, an 11% decline year-over-year. However, prior period results included a real estate joint venture gain of $13 million, mainly impacting Global Automotive. If we exclude this prior period gain, adjusted EBITDA declined only 5% or $11 million, in line with our expectations. This decrease was primarily driven by lower results in Global Auto as continued inflationary impacts on labor and parts increased average claim severities. We also incurred increased claims cost on ancillary products as these costs revert to more normalized levels following their post-COVID lows. The Auto earnings decline was partially offset by higher investment income from higher yields and growth in the U.S. across distribution channels.

In terms of Connected Living, excluding the prior period real estate gain and $3 million of unfavorable foreign exchange, earnings were roughly flat. In mobile, earnings were down from soft results in Japan and Europe, as expected. As a reminder, headwinds in international earnings did not materialize until the second half of 2022. In Japan, we continue to experience subscriber declines as our 4-year protection product continues to run off. And in Europe, while we are benefiting from previous expense actions taken in the latter part of 2022 and the beginning of 2023, lower volumes have impacted year-over-year results.

U.S. mobile earnings were flat year-over-year as growth in North American device protection programs from carrier and cable operator clients was offset by lower mobile trade-in results. Trading results were impacted by lower volumes due to the timing and structure of carrier promotions and lower fee income from the previously disclosed contract change. However, higher prices on used devices partially offset the decline. Extended service contract earnings increased as U.S. client performance improved, benefiting the rate increases implemented from several clients that began to offset the impact of higher claims costs.

Turning to net earned premium, fees and other income. Lifestyle was up by $96 million or 5%. This growth was primarily driven by Global Automotive, reflecting prior period sales of vehicle service contracts. Connected Living net earned premiums fees and other income increased 1%. However, this includes an approximate $60 million negative impact from the previously disclosed mobile program contract changes, which had no impact on profitability. Excluding these contract changes, Connected Living net earned premiums, fees and other income grew by 6%.

The quarter benefited from growth in mobile subscribers in North America, excluding client runoff, and higher contributions from extended service contracts. For the full year 2023, we now expect adjusted EBITDA to be down modestly for Global Lifestyle. Global Auto is expected to be down for the full year as we anticipate loss experience to remain unfavorable for several quarters and the impacts from continued normalization of loss experience for select ancillary products previously mentioned.

As Keith described, we've taken specific actions such as rate increases on new business, repair cost reduction and changes to client contract structures to help mitigate these impacts, which is why we expect an increase in profitability over time. Higher investment income has and is expected to continue to partially offset these impacts.

In Connected Living, we do expect our U.S. Connected Living business to grow modestly for the full year. As a reminder, third quarter results historically include both lower trade-in volumes and higher loss seasonality. These items typically improve in the fourth quarter. In addition, our third quarter results last year included an $11 million onetime client benefit in Connected Living. And while Japan and Europe have stabilized, we are focused on top line growth, which has been slower to materialize than expected.

Finally, we will also continue to focus on expenses while investing in growth opportunities where we have strong momentum with clients. In terms of net earned premiums, fees and other income for the full year, Lifestyle is expected to grow as growth in Global Automotive is partially offset by ongoing foreign exchange headwinds.

Moving now to Global Housing. Adjusted EBITDA was $155 million, which included $13 million in reportable catastrophes from severe windstorms in the Southeast U.S. and flooding in Florida. Excluding reportable catastrophes, adjusted EBITDA more than doubled to $168 million, were up $87 million from both top line growth and favorable non-cat loss experience within homeowners.

Top line growth in lender-placed came from higher average insured values and premium rates as well as more policies in force. These together accounted for approximately half of the increase in earnings. Favorable non-GAAP loss experience came from a $40 million year-over-year net reduction in reserves related to prior period development and is comprised of a $28 million reserve reduction in the current quarter plus a $12 million reserve strengthening in the second quarter of '22. Excluding prior period development, non-cat loss experience increased modestly due to the increase in frequency and severity. Higher investment income also contributed to earnings growth.

Turning to our reinsurance program. We completed our 2023 catastrophe reinsurance program in June. We fared well in the market, with this year's total cost increasing less than previously expected and only modestly over 2022. This increase is relatively small due to strategic actions taken, including exiting our international footprint, increasing our level of retention and adjusting our reinsurance coverage. As anticipated, our first event retention increased to $125 million from its previous level of $80 million, and the retention level reduces to $100 million for second and third events. We also increased our total program coverage to a 1-in-225-year probable maximum loss to further minimize our risk from extreme catastrophes.

Moving to Renters and Other. Earnings increased, largely due to a benefit within our NFIP flood business of $5 million. Excluding this item, results were in line with 2022. For the full year 2023, we expect Global Housing adjusted EBITDA, excluding reportable cats, to grow significantly due to strong performance in homeowners, driven by top line expansion from lender-placed.

Regarding the second half of the year, we expect ongoing momentum from a continued gradual abatement of inflation, lower seasonal losses, particularly in the fourth quarter, and continued revenue strength. This momentum should offset a modest increase in catastrophe reinsurance costs in the absence of both another NFIP benefit and additional favorable reserve development, which can be difficult to predict. Together, these last 2 items contributed $33 million to our first half results.

Moving to Corporate. The second quarter adjusted EBITDA loss was $29 million, up $4 million from lower investment income. For the full year 2023, we expect the corporate adjusted EBITDA loss to be approximately $105 million. I would also mention that the investment portfolio continues to perform well, with higher interest rates improving both short- and longer-term returns.

Turning to holding company liquidity. We ended the quarter with $495 million. In the second quarter, dividends from our operating segments totaled $180 million. In addition to cash used for corporate and interest expenses, second quarter cash outflows included 3 main items: $20 million of share repurchases, $40 million of common stock dividends and $50 million related to previous acquisitions within Global Auto. For the full year, we expect our businesses to continue to generate meaningful cash flows, approximating 65% of segment adjusted EBITDA, including reportable catastrophes. This is consistent with our previous forecasts. Cash flow expectations assume a continuation of the current economic environment and are subject to the growth of the businesses, investment portfolio performance and rating agency and regulatory requirements.

In closing, we're quite pleased with our first half overall performance, which continues to demonstrate the strength and the diversity of our businesses, and believe we are well positioned to achieve our increased full year financial objectives.
And with that, operator, please open the call for questions.

Question and Answer

Operator

The floor is now open for your questions. [Operator Instructions] Our first question is coming from the line of Jeff Schmitt from William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Global Housing seems to really be turning a corner here. But just looking at that, you've mentioned the favorable development charge, I think it was $28 million. When we back that out, the underlying loss ratio was at 44%, which is still sort of high relative to historical levels and especially, I think, considering with the way that housing material and labor cost inflation have moved down. So are you just sort of taking a conservative posture there? Or what are you seeing?

Keith Warner Demmings
President, CEO & Director

Yes. So maybe a couple of comments. Obviously, really pleased with the progress that the team has made. We talked a lot about it last year, a lot of actions to streamline the business to focus on the core products and obviously put appropriate rate adjustments in place, and certainly, it's showing through in the first half of the year. And to your point, that's exactly the way we look at it. We adjust the $28 million of PPD in the quarter. We also adjust for the $5 million FEMA bonus as we look at our overall results, underlying still incredibly strong, $135 million in the quarter.

And then to your point, current accident quarter loss ratios are 44%, I think a little under 42% last year. And that's just a factor of the increased inflationary pressure that we see being largely offset by the work we're doing on rate but not fully back to the levels that we saw last year. So as we think about the strong fundamental performance in Housing, it's not a result of unusually low loss ratios. In fact, kind of our year-to-date normalized combineds are kind of right in the range of what we would have otherwise expected. But Richard, I don't know if you wanted to add anything else to that.

Richard Dziadzio

Yes, exactly. And I would just say, if we look year-over-year, you're exactly right, Jeff, with the 44%. That's a couple of points above last year's level, same time. And as Keith said, I think we do have some inflation that's -- it's higher last year than -- the costs are higher this year than last year. So that's running through a little more frequency. And just also, there was more, I would call, severe convexity storms in the last quarter. And while those storms, most of those storms didn't make it to reportable cats for us, over $5 million, as you know, we had a very low level in the quarter, some of them are in the non-cat loss ratio. So we did have our share of those, I would say, overall, and that's within the couple point increase that we see over the year as well.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Okay. That makes sense. And then what was the inflation guard adjustment? I think that goes in maybe once a year, but what is that going to be this year versus last year? Obviously, that's going to go into premium. And then are you still getting rate sort of above that as well?

Keith Warner Demmings
President, CEO & Director

Yes. So we talked about inflation guard going in double-digit levels last July. So we would have put the final adjustments through based on that in June of this year. And then, to your point, we do an annual adjustment, it's 3.1% adjustment that would go in on top of that for July to AIV. And then modest rate adjustments, plus and minus, as we think about managing across all of our states, but certainly still have more to earn through from last year's AIV adjustments, and then on top of that, the 3% that we just put in place in July.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here for you. First, can you talk a little bit about the inflationary pressures you're seeing in Global Auto? And I understand it's going to pressure margins here through the remainder of 2023. Is this something we're going to see continuing to pressure margin throughout 2024 just as it takes time for these contract changes to work through numbers?

Keith Warner Demmings
President, CEO & Director

Yes, I definitely think there'll be continued pressure. I do expect '24 to be improved from '23, but definitely, we'll see elevated levels of losses from the inflationary pressure on the parts and labor and auto. As I think about sizing that for you, I'd probably think maybe a little north of $10 million a quarter in EBITDA impact. So if I was going to size it for this year, that's probably the range that we would put on it.

I would say that's -- we expect that to recover over time, both in terms of the rate increases that I mentioned earlier, but also the actions we're taking to try to optimize the service network to improve access to parts and to try and drive down claim costs as well. And that obviously can have a more near-term benefit and the rate takes a little longer to earn through.

What I would say is we've taken the actions that we want to take. So we've had great dialogue with our clients. There's only a handful of clients where this is really an impact for us, and we've made rate adjustments already in partnership. Our interests are very well aligned with our clients, and we feel confident that we're going to get this to the right level over time. You've seen us resolve issues from inflation in Housing. We've resolved issues on ESC. Obviously, auto is the new area of focus, and our team is 100% focused on delivering and executing.

Brian Robert Meredith
UBS Investment Bank, Research Division

Excellent. And then second question, Japan, when are we going to lap some of these kind of contract roll things that were going on? When will that finally kind of be done? Is that the end of this year? Is there any kind of going into 2024 as the contract changes in Japan?

Keith Warner Demmings
President, CEO & Director

Yes. I think that runs through really this year, and I would expect to see a lot more stability as we head into '24. And then I do think we've got an incredible position in the Japanese market. We've partnered with all 4 carriers. There's a tremendous amount of long-term growth opportunity in that market. And I definitely think we'll see growth again in '24 and over the long term.

Brian Robert Meredith
UBS Investment Bank, Research Division

So that's a meaningful part of the headwind you're seeing is the Japan kind of contractual more than kind of an economic situation?

Keith Warner Demmings
President, CEO & Director

Yes. I think the financial performance is still very strong in Japan. I would say the first half of this year stabilized from the second half of last year. We had a very strong first half, both in Japan and Europe, in our '22 results. So from a year-over-year comparison, definitely, they look down. But in terms of sequential, as we look at exiting last year, they're both very stable, so I'm really pleased with that performance. In fact, Europe is above where it finished the year in Japan, very stable to where it finished. But it is a meaningful contributor for us, and it's an important part of long-term growth. So it will no doubt be a priority.

Operator

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

Mark Douglas Hughes
Truist Securities, Inc., Research Division

The fee income, what's your outlook in terms of kind of programs or trade-in promotions as we think about the balance of the year?

Keith Warner Demmings
President, CEO & Director

Sure. And maybe I'll start and certainly, Richard, if you have other thoughts on fee income. But we saw -- and this can be volatile quarter-to-quarter, really dependent on promotional activity within the industry. We're fortunate, particularly in the U.S., we partner with all of the major carriers, which is a great position to be in from a trade-in perspective. We definitely saw lower trade-in volume in Q2, whether you look at it sequentially or year-over-year. And that's really just a function of the amount of advertising, the promotion and how hard are carriers pushing to upgrade customers to new devices and then how aggressively are they promoting trade-in offers.

And that ebbs and flows. It was a little bit down in the quarter. To the extent that as new devices come out in the fall, we certainly expect to see more aggressive marketing campaigns. But it's a little bit in the control of the hands of our clients, and it's a very dynamic market, but continues to be important for our clients and something that we're very focused on.

Richard Dziadzio

And typically, Mark, we would -- Q3, we're not expecting big increases. Typically a higher period would be kind of Q4 for us. So a little bit of what we mentioned in our remarks as well. So there is some seasonality to it, as Keith mentioned, in the second half of the year.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. Understood. You mentioned the inflation guard up 3%. Any prospect for additional rate on top of that based on the date approved increases?

Keith Warner Demmings
President, CEO & Director

I would say some marginal rate increases, certainly state by state. And obviously, we look at our rates very closely. So there's -- there'll be a little bit of additional rate coming through. But obviously, the big adjustments we put through last year that are still earning through the book.

Richard Dziadzio

Sorry, Mark, as we look forward to the second half of the year, we could see slight increases, but we're not seeing large increases to revenues continuing. I think we've kind of gotten there already, plus we've gotten out of certain international areas. So overall, the revenues will be impacted a little bit by that. But overall, I think there will be a little more to come, but not -- certainly not the levels we've seen over the past year.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. And how about the new money yield on investments versus the portfolio yield? What are the prospects for more improvement there?

Richard Dziadzio

Well, I'd divide into a couple of things. I mean we've actually had some nice increase in investment income over the last year. I think absent the real estate gains, probably $30 million in cash in short term. And then obviously, we didn't have a real estate gain this quarter. But just on your question on yields, we do have, in the long term, our fixed income portfolio is a 5-year duration. So we get a continuous roll on that, and we'll get a continuous kind of increase in those longer-term yields.

We've really benefited from short-term rates also, which is -- accounts for almost as much as the increase or as much as the increase in the longer-term yields, right, with the Fed increasing interest rates. At some point in the future, those will probably come down. So we'll see that cash return come down. Who knows when that will happen, but we could see that as well. But on a longer-term basis, we should continue to get some yield increase.

Operator

Our next question comes from the line of Tommy McJoynt with KBW.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

You mentioned the expectations for modest growth in Connected Living this year, and we've had a little bit of discussion on sort of U.S., Japan and Europe. Could you dissect those expectations for that modest growth just into any maybe sort of ranges for U.S. x percent, Japan down x percent. Just trying to get a gauge of exactly how much of a headwind in terms of the overall number that Japan and Europe actually are?

Keith Warner Demmings
President, CEO & Director

Yes, I'd say if I look at Lifestyle and we think about the outlook for '23, I would say, domestic Connected Living, I think we had a strong first half, and that will continue consistently for the back half of the year, and that will yield modest growth for Connected Living U.S.. So performance pretty steady, but that's going to be an increase year-over-year. And again, that's overcoming the onetime client benefit we had last year in the third quarter for $11 million.

In terms of international, I'd say our expectations in the second half would be consistent with what we saw in the first half. So continued stability and obviously then putting our attention to driving longer-term growth opportunities, particularly in Europe and Asia Pacific. And then in terms of the auto side of the business, I'd say auto losses will remain kind of at elevated levels as we saw in the first half. We'll continue to see the normalization of GAAP, and I would expect Auto in the back half of the year to reflect something more similar to what we saw in the second quarter. That would be the simple way for me to think about it, Tommy.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Yes. That's helpful. And then switching over to some of the line of questioning on Housing. Obviously, there's been pretty tremendous growth this year. I think you guys have last given your sort of normalized cat load expectations for $140 million for this year. With all the growth that you've seen in Housing, you have any early indications for what you might consider a normalized cat load as we head into '24?

Richard Dziadzio

Yes. We haven't really updated our cat load. I mean we put it in for the year, and then to be honest, after that, it's sort of like the weather the cats will get, we'll get, I would say. So we're still at that $140 million number so far. But speaking of that, we were really happy with the reinsurance, the cat reinsurance placement that we put into place where we had thought going into the season at the end of last year, we'd get an increase, a non-negligible increase in our cat reinsurance. And actually, at the end of the day, we're only going to be modestly up over the year.

We've done that for a number of things, whether it's increasing the retention level, working with our reinsurers, exiting some of the international -- or exiting the international property footprint that we have. So we've done a lot of things to kind of protect the company. We increased the top end as well to 1-in-225-year maximum probable loss, so we think we're in good position. So far in -- through July, we haven't had any cats hit us that are reportable so far, so we'll wait and see. Obviously, we're in cat season right now, so we'll see how it comes out.

Operator

[Operator Instructions] Our next question comes from the line of John Barnidge from Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

In your prepared remarks, you talked about new vectors of Global Lifestyle growth. How do you think through that? It sounds like expanding business.

Keith Warner Demmings
President, CEO & Director

Yes. Certainly, a couple of thoughts. We've got great momentum with clients in Global Lifestyle around the world. If I think about our mobile business and the traction we've had over the course of the last 7 or 8 years has been pretty steady. We've got relationships with so many of the marquee brands globally, and that yields a lot of opportunity to do new things, introduce new services, innovate with new products, try to find new ways to help them drive success. So I would say we've got as much ongoing dialogue with clients today and prospects today as we've ever had, and there seems to be a constant interest in innovating and doing new things. And the fact that we've got a really wide-ranging capability set, I think, is a huge advantage for us, and we'd look to see that continue to drive growth long term.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

And then my follow-up question, you talked about expense reductions across the global franchise. Is that above what was previously contemplated into the Lifestyle input cost trends drive an increase in cost reductions?

Keith Warner Demmings
President, CEO & Director

Yes. Maybe I'll start and then Richard can add on. But certainly, we've tried to be very disciplined around expense management. Our goal this year was to hold our G&A expenses relatively flat. That means we have to overcome merit increases, additional costs for health and well-being for our employees. We've got to absorb incremental growth and incremental investment. And we've tried to do that with some of the expense actions that we took in the fourth quarter last year, but also a pretty intense focus on driving digital first and automation through all of our operations, whether they were call center, claims operations or even our depots. That continues to be a huge area of focus for us. And we're really pleased with the progress we've made so far.

But Richard, anything else you want to add on expenses?

Richard Dziadzio

Yes, I would just say, and then turning to the Housing side, in particular, we've gotten some really good leverage off our expense base with some of the investments we've made in automation and digital capabilities. And you've seen in our supplement, the expense ratio go down a number of points over the last year where we're at 38.8%. Now part of that, we had that NFIP bonus that Keith mentioned. But really, the lion's share of it is the fact that we've had increases in revenues and not a proportionate increase in expenses. So that really demonstrates we are getting leverage out of the business, out of the operations and all of the work that we talked about last year that the Housing area is doing.

Operator

Our last question is coming from the line of Grace Carter from Bank of America.

Grace Helen Carter
BofA Securities, Research Division

I think that we had previously talked about maybe some seasonality in the Connected Living book in 3Q, just with people more likely to be out and about and maybe damage their devices. I was just curious if you could quantify that on a historical basis, just how we're thinking about how the loss ratio might shape up in the second half of the year?

Keith Warner Demmings
President, CEO & Director

Yes. Maybe I'll offer a couple of thoughts and then ask Richard to jump in. But definitely, you're correct. We do see seasonality in Q3. We also see, to Richard's point earlier, lower trade-in volume in the third quarter and higher trade-in volume in the fourth quarter. So as a result, we'd expect to see an improvement in Q4 over Q3 for Connected Living. And to the extent that we've got certain mobile programs where we're on risk, obviously, we see that impact on frequency in our quarterly results in the third quarter.

Now we have moved one of our clients to a reinsurance structure, which we talked about, that noneconomic contract change. That certainly will help mitigate some of that impact. But I don't think we've sized what we would expect the delta to be. But Richard, you might want to add some commentary?

Richard Dziadzio

Yes. We haven't sized it, but I would say it's modest. I mean really what we wanted to portray is really Q3 is typically a softer quarter from us -- for us, for the trade-ins and some claims increase. It's not hugely material, but it's enough for us to talk about to really say, hey, when you're looking at Q3 and Q4, if you're modeling that, Q3 is going to be softer and Q4 is usually stronger because we don't have the claims, the increase in claims that we just talked about and then trade-ins are usually higher.

Grace Helen Carter
BofA Securities, Research Division

And then I guess on the decrease year-over-year in Global Devices service, to what extent is that driven by the discontinuation of the in-store repair capabilities versus any other factors?

Keith Warner Demmings
President, CEO & Director

Yes. That was $400,000 on a year-over-year basis. So you could remove $400,000 from Q2 last year and that will give you an appropriate comparison.

All right. I think we took all of the questions. So thank you, everyone, for joining today, and we'll certainly look forward to speaking to you again in November for our third quarter earnings call. And as usual, please reach out to Suzanne and Sean if you have any follow-up questions. And again, thanks, everybody.

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