S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

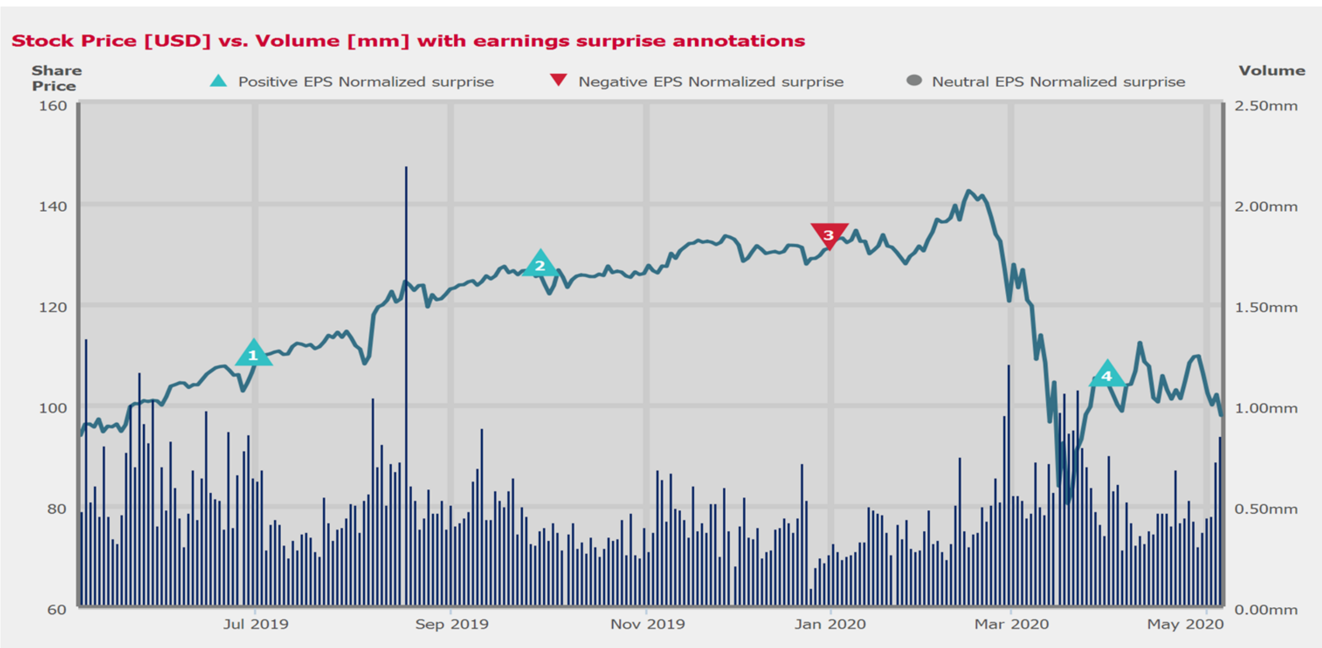
FQ1 2020 Earnings Call Transcripts

Wednesday, May 06, 2020 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.43	2.64	▲8.64	2.42	9.11	10.39
Revenue (mm)	2544.45	2565.60	▲0.83	2694.44	10593.27	11198.52

Currency: USD
Consensus as of Apr-16-2020 4:57 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	2.12	2.34	▲1 10.38 %
FQ3 2019	1.66	1.69	▲2 1.81 %
FQ4 2019	2.35	2.25	▼3 (4.26 %)
FQ1 2020	2.43	2.64	▲4 8.64 %

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Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Richard Steven Dziadzio
Interim Chief Accounting Officer, Controller, Executive VP & CFO

Suzanne Shepherd
Senior Vice President of Investor Relations

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Gary Kent Ransom
Dowling & Partners Securities, LLC

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Presentation

Operator

Welcome to Assurant's First 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 first quarter 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 first quarter 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 report.

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. Before reviewing our results for the quarter, I wanted to share a few comments regarding the COVID-19 pandemic and our ongoing response. From the beginning, Assurant's leadership team acted swiftly and deliberately, led by our guiding principles, to safeguard our employees and their families, to maintain operations and service level for our customers and to support our local communities.

Early in this crisis, we implemented a global ban on business travel and transitioned the vast majority of our workforce to work from home to help stem the spread of the virus in our communities and to protect our employees. For those employees who need to work from our offices or repair sites due to the essential nature of their roles, we've implemented strong safety and hygiene protocols. These measures include social distancing and the use of personal protective equipment, along with regular cleaning and disinfection of our locations based on the guidelines from the Centers for Disease Control.

We are committed to doing what we can to protect our employees through this period of uncertainty, always treating them with respect and providing appropriate support given the challenges we are all dealing with at this time. To allay job security concerns as well as to continue to deliver for our customers, we've made commitments to our employees to not eliminate any roles due to COVID-19 in the short term.

We've also offered financial support where it's most needed. As part of our Assurant Cares Employee Support, or ACES Fund, we've launched a special COVID-19 Emergency Relief program to support eligible employees who are experiencing severe financial hardship caused by the pandemic. We've already raised more than $1 million through the support of our foundation and personal donations from our management committee, the Assurant Board of Directors and the generosity of hundreds of employees.

Since its inception in late March, the special ACES Fund has helped more than 800 families manage through these turbulent times. Furthermore, our Assurant Foundation is honoring all of its 2020 charitable commitments and has pledged an additional $250,000 to aid core charitable partners that are providing food and emergency support in the communities where we operate.

I'm exceptionally proud of how our employees have supported not only each other and our communities, but also our customers. We've been able to maintain continuous service for our clients and provide essential support for our customers, like ensuring that their homes remain protected and helping them stay connected through their mobile devices at a time when we are all socially distancing.

I want to thank our more than 14,000 employees for supporting each other, our customers and our communities throughout this extraordinary time. You have truly made us Assurant proud.

Now let's move to our first quarter results, which were strong and largely unaffected by COVID-19. We benefited from continued growth in Global Lifestyle as well as improved results in Global Housing.

For Assurant overall, we reported net operating earnings per share, excluding catastrophes, of $2.84, an increase of 22% from the same period last year. Net operating income, excluding catastrophes, was up 18% to $176 million.

In the quarter, we incurred about $2 million of incremental expenses directly related to COVID-19, which were reflected in net income. These expenses include, among other things, cost for the standardization of our facilities and the purchase of personal protective equipment and technology to enable work from home.

Throughout this period, our balance sheet remained strong. At the end of March, we had $433 million of holding company liquidity after returning $95 million to shareholders through dividends and buybacks during the quarter.

[Audio Gap] provide us with an additional buffer during this crisis, we drew down $200 million from our revolving credit facility in late March, solely as a precautionary measure. We do not expect to use these funds. We are pleased with our first quarter results, which reflect strong momentum across our business pre-crisis.

However, we recognize that they may not be indicative of our performance in the coming quarters as the world continues to grapple with the impact of COVID-19. We have run multiple scenarios looking at the potential duration and severity of this crisis to better understand how our business might perform and to ensure we have the agility to react appropriately.

Although we believe the long-term fundamentals and resiliency of our business remain strong, we are suspending our 2020 financial outlook until we gain additional clarity on COVID-19's duration and its impact on the broader economy and our business. We believe this is a prudent and sensible action given the current uncertainty.

Relative to capital deployment, we want to retain maximum flexibility. Over the next few months, we will exercise caution in light of market volatility and as we enter hurricane season. This will include an ongoing evaluation of share buybacks with an expectation that we will slow down or pause until we have greater visibility. This applies to new M&A evaluations as well.

We plan to provide an update on our 2020 view and our long-term targets once we have more clarity of the economic landscape we're facing. Over the long term, however, we still believe that we can continue to deliver shareholder value through above-market growth and disciplined capital management. This confidence is grounded in the strength of our business portfolio.

Our installed customer base across Connected Living, Global Automotive, multifamily housing and Preneed and our countercyclical lender place business position us well to weather a prolonged crisis. Near term, however, we expect a greater impact to our business as a result of the ongoing market volatility and containment measures and how those could further impact consumer behavior.

As an example, in late March and throughout April, we saw a reduction in new sales across multifamily housing, Auto and Preneed. Within mobile, we experienced lower trade-in activity and slower sales growth.

We are taking actions to mitigate potential impacts. For instance, we've deferred some discretionary spending and delayed staffing of certain open roles in our support areas. While we are deferring some investments as a precautionary measure, we have continued to make progress against key strategic initiatives to support our clients and their customers during this crisis and beyond. These have included, among other things, continued enhancement of our self-service capabilities and our dynamic claims fulfillment to facilitate faster claims resolution as well as our ongoing IT transformation.

Before turning to Richard, let me provide additional highlights from the quarter for each of our business segments. Within Global Lifestyle, we were pleased to see earnings increase by 20% year-over-year. Our growth has been driven by continued additions of new mobile subscribers, up 15% year-over-year.

We believe that our ability to offer bundled value-added services to our installed base of more than 54 million subscribers provides a recurring revenue stream, even during an extended period of financial uncertainty. While we may add fewer new subscribers during this crisis, we still expect our count to grow. This should help mitigate impacts from expected lower trade-in volumes.

Another driver of our success within Global Lifestyle has been our ability to expand partnerships with market leaders and new entrants. For example, this quarter, we enhanced our existing relationship with Rakuten Mobile by launching a new trade-in program in Japan. In addition to offering device protection for their mobile networks, the program provides a completely digital trade-in experience.

Turning to Global Automotive, we believe the business is relatively well insulated from near-term economic shocks given its significant level of embedded earnings. At the end of the first quarter, we had approximately $8.2 billion of unearned premium related to this business, which we'll earn over the next 3 to 7 years.

Furthermore, approximately 50% of our business comes from service contracts on used car sales, which tend to be less impacted as a result of economic downturns as we saw during the last recession. As such, we remain positive on auto and have continued to look for select opportunities to further scale the business.

Last week, we closed on the acquisition of our longtime partner, American Financial & Automotive Services, or AFAS, for $158 million. This represents an attractive valuation relative to recent transactions in the space and complements our 2018 acquisition of The Warranty Group. AFAS is a provider of finance and insurance products and services, including vehicle service contracts and other ancillary offerings, with nearly a 40-year history. AFAS products and services are sold directly through a network of nearly 600 franchise dealerships with a deep footprint in Texas and the Southwest.

For 2020, we don't expect the acquisition to be a significant contributor to our results. However, in 2021 and beyond, we expect it to further enhance our market position and add scale with the expectation to deliver additional profitable growth over time.

Moving to Global Housing, our lender-placed franchise continues to be an integral part of our specialty risk offerings. During the quarter, we renewed another one of our largest lender-placed clients for an additional 4 years. Since the beginning of last year, we've now renewed 17 clients, representing more than 80% of our tracked loans. Our superior customer platform has been a differentiator and will serve us well through economic cycles to support our clients and policyholders.

In multifamily housing, we now support almost 2.3 million renters across all 50 states. While the business tends to be more resilient during economic downturns as consumers prefer to rent versus buy, beginning in mid-March, we saw a decline in new policies as renters are delaying their moving plans due to the pandemic.

During the last few weeks, we've seen some tentative signs of stabilization, especially in our affinity channel as tenants may be regaining comfort with moving. We remain cautious, however, as we enter the summer, when we typically see greater activity and sales growth.

We will continue to monitor sales, persistency and claim trends while also doing what we can to support current policyholders who are experiencing financial hardship during this challenging time. This includes deferring premium where appropriate.

Moving to Global Preneed, results in the first quarter were largely in line with our expectations. This business benefits from lower mortality risk than traditional life insurance products and acts as more of a spread business.

In light of the current low interest rate environment, we've worked with our partners to make changes to their product as well as help our clients complete the sales process virtually. We will continue to evaluate other actions as appropriate.

With regards to mortality, experience has been largely consistent with our experience last year. We attribute this to our policy footprint, including the fact that we do not write in New York.

In summary, despite this uncertainty, we believe our business is resilient and that Assurant will weather this period and emerge strong.

I'll now turn the call over to Richard to review first quarter results and recent trends in detail. Richard?

Richard Steven Dziadzio
Interim Chief Accounting Officer, Controller, Executive VP & CFO

Thank you, Alan, and good morning, everyone.

Let's start with Global Lifestyle. The segment reported earnings of $121 million in the first quarter. Excluding a $6.7 million client recoverable in Connected Living, earnings grew 14%, primarily from continued mobile growth in both new and existing programs. Global Automotive was also a contributor, largely due to $5 million of onetime income related to client recontracting, along with modest growth from prior-period sales.

Global Lifestyle results were partially offset by lower margins for mobile trade-in activity, including some impacts related to COVID-19 from the shutdown of Asian markets earlier in the quarter. Unfavorable foreign exchange also impacted results.

Looking at total revenue, net earned premiums and fees were up $265 million or 16%. The increase was driven primarily by higher fee income for mobile trade-in volumes and subscriber growth across North America and Asia Pacific. Expansion within extended service contracts also contributed to growth in the quarter. Within Global Automotive, revenue grew 9%, primarily reflecting prior-period sales of vehicle service contracts across all distribution channels.

Looking ahead, as Alan mentioned, we are continuing to monitor trends and the impact of COVID-19 across the segment. While we believe mobile is well positioned given our large in-force subscriber base, trade-in volumes did decline significantly in the first few weeks of April, reflecting store closures and lower consumer demand for new devices. We expect volumes to rebound when stores reopen and carriers are able to resume in-store promotional activity, although timing of such widespread recovery remains unclear.

Looking at our underwriting experience, we have seen a decline in mobile claims as a result of customers staying indoors. In most cases, this stable experience will not benefit our bottom line due to profit sharing or reinsurance agreements.

In Global Automotive, near-term earnings should be relatively well protected from a slowdown due to how the business earns. However, we still have exposure related to reductions in vehicle service contract sales, which in April were down by roughly 40% year-over-year due to a decrease in vehicle sales.

In general, new car sales typically earn a majority of income 3 to 5 years after being sold following the expiration of the manufacturers' warranties, thereby delaying the revenue impact. However, in the event of a prolonged downturn, we would expect to see an uptick in used car sales, which earn more quickly.

The persistently low interest rate environment also creates some headwind. While Global Automotive does have a longer duration portfolio of 3 to 7 years, we do expect investment income to be pressured from lower investment yields coming from new business.

Throughout Global Lifestyle, we also expect continued pressure from foreign exchange volatility, especially in Latin America, due to the economic environment. So, while we expect Global Lifestyle to be impacted in 2020, this segment should be more resilient during an economic downturn relative to other consumer-type businesses.

Moving to Global Housing. Net operating income for the quarter totaled $74 million, up slightly year-over-year despite higher reportable catastrophes from the Puerto Rico earthquakes. Excluding catastrophe losses, earnings increased $6 million. This was driven by favorable non-catastrophe loss experience and improved results

[Audio Gap]

property offerings, largely related to the absence of losses within small commercial as it continues to run off.

Lender-placed income increased, reflecting higher premium rates, partially offset by a reduction of policies in force, including a loss of loans from the financially insolvent client we previously disclosed. That portfolio has now completely deboarded.

Turning to revenue, Global Housing net earned premiums and fees were flat as growth in our special property and multifamily businesses was offset by the reduction in policies referenced earlier. The insolvent client portfolio also contributed to a 7 basis point year-over-year decline in the placement rate.

As we continue to operate in this environment, we are tracking a few trends in Global Housing. In multifamily housing, we see a decline in new sales starting in mid-March. We continue to monitor sales, policy cancellations as well as the impact from premium deferrals, which today are primarily related to policyholders requesting premium leniency. While we initially saw a dip in claims, we are seeing activity normalize, reflecting the fact that policyholders are at home.

Within lender-placed, we will continue to monitor the state of the overall housing market, including the potential impact of the current mortgage moratorium, which would delay placement of new policies but at the same time reduce lapsation. This business provides critical coverage to both homeowners and their lenders and provides downside protection should the economy deteriorate significantly. However, we would not anticipate any benefit to our placement rate this year.

Lastly, our small commercial business continues to run off as expected, with only 8% of the original block of policies remaining. With regard to potential exposure on business interruption coverage associated with this business, we currently believe our risk is low given virus exclusions included in our policies. We will continue to track state actions and their implications.

In summary, while we remain cautious on multifamily housing in light of the current uncertainty created by COVID-19, we continue to believe that Global Housing is well positioned to weather a prolonged economic downturn.

Now let's move to Global Preneed. This segment reported $12 million of net operating income, up slightly year-over-year, driven by continued growth within the business. Revenue for Preneed was up 9%, driven by U.S. growth, including Final Need sales.

As we look ahead, we expect some pressure from lower yields on new sales through the current interest rate environment. However, given the 10-year average duration of our investment portfolio, our existing block of business should not be significantly impacted for some years to come.

As Alan mentioned, so far we haven't seen any significant spikes in mortality due to COVID-19. As a reminder, a large portion of our policies are concentrated in California, Texas, South Carolina and Tennessee. So far, these states have experienced lower mortality from COVID-19 compared to states in the Northeast.

At Corporate, the net operating loss was $20 million versus $19 million in the prior year period. This was due to lower investment income in the Corporate segment, partially offset by lower employee-related expenses, including travel. We will continue to evaluate additional expense actions as necessary.

In light of market volatility, I also wanted to provide an overview of our investment portfolio and strategy. In the first quarter, we recorded a $76 million mark-to-market loss in our investment portfolio. This reflects the decline in valuations of our equity securities and our CLOs, each contributing to about half of the total loss.

Despite these losses, we believe that our $13.6 billion investment portfolio is well-diversified and high quality. Approximately 86% of our investments are comprised of fixed maturities and 95% of these securities are investment-grade rated. While interest rates are expected to remain relatively low for the foreseeable future, we believe we are well positioned to navigate this environment given the duration of our existing investment portfolio, along with our conservative low asset turnover approach.

Our overall exposure to these sectors that have been hit the hardest by the current market turbulence is not significant. Investments in travel and leisure represent less than 0.5% of our investment portfolio. Energy makes up only 4% of our portfolio, and our investments tend to be in larger and more diversified energy companies. Retail represents 2% of our portfolio and is comprised of mostly large diversified household names. Our auto and airline exposures are each 1% or less of our portfolio.

I would finish on the investment portfolio by saying we will continue to apply consistent investment approach. While we recognize every crisis is different, this is the same strategy that served us well during the financial crisis over a decade ago.

Finally, I'd like to mention that in April we completed the outsourcing of the management of our core investment portfolio to Goldman Sachs Asset Management and Voya Investment Management. We believe that their investment expertise and scaled platforms coupled with ongoing oversight of our in-house team should serve us well going forward.

Turning to the holding company liquidity, we ended March with $433 million or $208 million above our current minimum target level. These figures do not include the $200 million draw from our $450 million revolving credit facility, the proceeds of which are also held at the holding company.

In the first quarter, dividends from our operating segments totaled $127 million. In addition to our quarterly corporate and interest expenses, key outflows in the first quarter included $57 million in share repurchases and $43 million in common and preferred stock dividends.

As Alan mentioned, relative to capital deployment, we will exercise even greater caution in light of market volatility and as we enter hurricane season. We have a robust risk management program, including stress testing our capital, cash flows and liquidity under a variety of scenarios, considering this uncertain environment.

Before wrapping up, I wanted to address 2 additional points. First, as you saw in our release, we booked a onetime tax benefit to net income amounting to $79 million. This was related to the enactment of the Federal CARES Act in March. The benefit is associated with the carryback of losses in 2018 to 5 years prior. This allowed us to accelerate deferred tax assets, which would have been recognized over the next 3 years at a lower tax rate.

Second, we still expect to close on the sale of Ike in the second quarter as planned, which will result in an expected net cash outflow of approximately $54 million plus seller financing of up to $40 million. Both the Ike and AFAS transactions will be reflected in second quarter holding company capital.

In conclusion, I echo Alan's gratitude to our employees and how they have responded during this unprecedented crisis. We are confident that we will emerge in a position of strength from this period. In the months ahead, we will continue to closely monitor trends and take appropriate steps to sustain our financial strength for the long term.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question is coming from Mark Hughes from SunTrust.

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

In thinking about the -- some of these specific impacts, I note that your fee income growth was actually quite strong in the first quarter. If we think about -- I think you talked about trade-in volume down significantly in April. I think you've seen some -- maybe the anticipation is that it will stabilize as things start to open up. How should we think about that fee category in Lifestyle in the second quarter? Just some rough parameters would be helpful.

Alan B. Colberg
President, CEO & Director

Yes. Mark, let me start on that and then Richard, as always, feel free to add on some comments. If you think about mobile, one of the things we've seen over the last few years is that Q1 tends to be a pretty active quarter. And we saw that again in Q1 prior to the slowdown began the second half of March. So normally, Q2 is a slower quarter anyway in terms of buyback and trade-in activity, and that often rolls into Q3 as a slower quarter, just as people are waiting to see what the new phones might be. So I think, certainly, in the second and third quarters, we'll have less activity anyway, even if we start to see a recovery.

And while we're on mobile, maybe just a couple of other thoughts about what we're seeing in that important line of business. You heard us in the prepared remarks talk about we've seen new sales slow down as stores are closed, largely across the U.S. and in other markets around the world. Even with that, we do expect subscriber growth. As we've talked about previously, we have these programs that have been launched in the last year or 2 that are going to continue to ramp. So even in a slower sales environment, we expect some growth in new subscribers. That will help offset the slowdown that we see in buyback and trade-in.

And then longer term, once we're through this crisis, it really -- whether we have a big bounce back in buyback trade-in or whether it's just a return to normal, it's going to depend a lot on what new phones come to market, what carriers elect to do. So again, we feel well positioned in mobile even as we go through this crisis. But Richard, what would you add?

Richard Steven Dziadzio
Interim Chief Accounting Officer, Controller, Executive VP & CFO

I think you covered it well. I guess the only thing I would add that might be helpful, Mark, is when you look at the line, fees and other income, obviously, there's mix of business, various clients, et cetera. But I would say, rule of thumb, probably about 40% to 60% of that fee income is made up of the trade-in upgrade volumes that we have. So maybe that helps a little bit.

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

Yes. The renters insurance, I think you saw some drop off, but then it stabilized. How much is that influenced by new sales? You've been really growing in a pretty steady range in the mid-single digits, some parameters on Q2, Q3 would be helpful.

Alan B. Colberg
President, CEO & Director

Yes. Let me start again. Similar to mobile, if you look at multifamily, it's a business that is really driven by people doing something, right? So in the March time frame, second half and into early April, we didn't see people moving. And so we don't have an ability to make a new sale. Now again, those moves may just be delayed and it could return if we get through the crisis in a reasonable time period.

The other thing that's unique on multifamily is we are seeing some requests for premium deferral. And that's either being driven -- a few states have mandated that, others were voluntarily providing it. It's not significant so far to our overall block, but it is something we're watching, and we are putting up an appropriate reserve in the event of people not being able to pay for their insurance that we're providing.

If we look longer term in multifamily, I think we're pretty optimistic about that business. If we get into any kind of downturn, people tend to rent more. We saw this in the last downturn, which obviously would be positive for that business. But more importantly, we're still early in rolling out our point of lease capability, which helps us provide a better experience and a greater attachment rate. We also see a major opportunity around the connected apartment as people, particularly with what's happened now, connectivity matters more than ever.

So in both multifamily and in mobile, we're focused on ensuring we're there, we're delivering for our customers. We've been able to sustain our service levels. We're still repairing cellphones and getting them back in a timely basis. And we're doing all we can to help out our customers, both mobile and renters and, of course, across all of our businesses.

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

I'll ask -- I think I might have asked this last quarter as well, but talk about the potential pressure on investment income from lower yields and how that influences the automotive business? Are you going through the process of adjusting your pricing to take into account the lower yield, so you generate adequate returns in that business?

Alan B. Colberg
President, CEO & Director

Richard, why don't you take that one?

Richard Steven Dziadzio
Interim Chief Accounting Officer, Controller, Executive VP & CFO

Yes, sure. Well, I guess the first thing I would say is the business that's on the books today has a relatively long duration, I guess, let's call it, 3 to 5 years. So that business is fairly well matched in terms of asset liability matching. So really, what we're talking about is that income will roll through. And as we have new sales, those new sales will be put up at the new level of interest rates. Obviously, short-term interest rates are very low. Who knows where they'll go over time. But you're exactly right. we would have the opportunity to work with our clients and as there are new sales, to look at what the pricing on the various products would be.

I guess the other thing I would add, Mark, is that a lot of the business that we do in the auto sector is reinsured to captive clients as well. So there is a straight -- a strong alignment of interest for us to really provide the customer with the best product, competitive product at the right pricing.

Alan B. Colberg
President, CEO & Director

And Mark, maybe the last thing I'd add in both Auto and in Preneed, these are our 2 businesses that have more exposure to investment income than our other businesses. We are hard at work on adding in other sources of revenue and fee income. So for example, in Auto, we started rolling out, pre-crisis, our pocket drive, kind of our onboard technology, and we're looking at other things like prepaid maintenance, which we're now driving into our programs. And in Preneed, we've been rolling out an executor assist product, which is another fee income generator that allows us to help people at time of need really manage it. So we're working, just as we've done in mobile and elsewhere, to create some fee income streams in addition to the traditional product.

Operator

Our next question is coming from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions for you all. First, on the Global Housing business, I'm just curious, number one, when could you potentially see an increase in placement rates? And number two, do you have any sensitivities that you've done around maybe macroeconomic statistics? And when -- or the magnitude of placement rates kind of increasing in a situation like this or something like mortgage delinquencies, unemployment, that kind of stuff, anything that you can kind of give us so we can figure out maybe some sensitivities here?

Alan B. Colberg
President, CEO & Director

Yes. Let me maybe start with kind of the short term, and then I'll go to the long term. First of all, lender-placed, it's an important product for the mortgage industry. We're effectively there to support the functioning of the market, to protect policyholders and lenders. But in the short term, we don't really see a lot changing. If you look at the mortgage forbearance that's underway, it's not going to have a big impact on us one way or the other. And so really, if we do get into a downturn, our product tends to be placed later in that cycle. So someone needs to move into seriously delinquent and often into foreclosure. So if you look at the last downturn, which is really the data point we have, which was an extreme housing market downturn, today, we're at about 1.5%, 1.6% placement rate. In the last downturn, we peaked at about just under 3%. So that gives you some sense of at least what happened in the last downturn. Who knows if we'll have a downturn here, and I certainly hope we don't. But if we do, our business is strong. It's well positioned, and we've made significant advancements in the last 5 years on our compliance, our tracking infrastructure. And so we feel very well positioned if we do have a downturn, but I wouldn't expect to see anything that is material in 2020.

Brian Robert Meredith
UBS Investment Bank, Research Division

I guess, I'm more thinking about mortgage delinquencies. I mean, if you talk to some of the mortgage insurance companies, they are talking about mortgage delinquencies kind of picking up here, and I'm not sure if you've got any sensitivities around that?

Alan B. Colberg
President, CEO & Director

I think it's really early days, and we'll have to see how it plays out. But even if we are starting to see what's going on with mortgage delinquencies ticking up, for us, it won't affect our placement for 6 to 9 months. So it won't be a driver for 2020. But if we do have that downturn, it will be a significant role for us in 2021 and beyond.

And as I mentioned earlier, we feel very well positioned. Because of our kind of industry-leading capabilities and compliance, we've been able to renew and, in many cases, early renew the vast majority of our book of tracked loans. So we're well positioned if it does develop this way.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then just -- I'm just curious, I know there's a profit-sharing component to the Auto Warranty business. But is there any impact that we could potentially see from delayed warranty work?

Alan B. Colberg
President, CEO & Director

For both of our lifestyle businesses, kind of Auto and mobile, the majority of our risk is reinsured back to our clients. So we really -- although they report as premium, we tend to really operate more as an administrator, and we receive fees for doing that effectively. So we're not seeing, though -- for example, in Auto, service remains open across much of the U.S. Now what's been shut down is sales, but service is viewed in most states as an essential service. So if you look at our activity levels in terms of servicing, we don't see a big dip. So it's not something that we're focused on as a risk.

Operator

Our next question comes from the line of Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I want to follow-up on an earlier question and your comments on continued growth in the covered devices. And I guess the mix between -- you talked about may be able to add new subscribers versus the kind of a fall-off in trade-ins. Maybe first off, just a little more detail on those new subscribers, where that comes from? And then secondly, what's the typical mix, I guess, of your growth there between the new subscribers versus the trade-ins, with trade-ins falling off in the near term? So what's the typical mix there? And then just maybe more color on the new subscribers that you expect to get.

Alan B. Colberg
President, CEO & Director

Yes. So the new subscribers are the biggest driver of that business over the last couple of years, and they're really coming from the new clients and programs that we've talked about that have been launched in the last couple of years. So for example, KDDI in Japan, Comcast and Charter in the U.S., et cetera. And those programs, once we launch them, it generally takes anywhere between 3 to 4 years. You need to go through a phone handset replacement cycle. So even if there are fewer sales now in the crisis, sales are still happening to a degree. So that's why they're going to grow.

Buyback trade-in was a big driver of our business back in like '15 and '16 when we really ramped it up. Over the last few years, it's been more stable. We haven't -- in key markets like the U.S. and Japan, you've seen the ownership of handsets lengthening. So people have gone to owning a handset for 3 years or in Japan 4 years. That's offset the growth we've had in subscribers. So that business has been more kind of flattish over the last couple of years. Now if we look forward, we see a significant wave of buyback trading coming. It may be delayed a little bit by the current crisis. But if you think about 5G, when that really starts to roll out, and it was going to start to roll out later this year in the U.S. -- we'll see how widely that really happens -- that will create a wave of activity for the next year or 2 in buyback trade-in, and we're well positioned.

The other important thing in mobile that's really driven our growth is we've been adding more services per subscriber. So if you recall when in the early days we had 1 service, now often we have up to 6 different sources of value with every agreement, where we're providing things like Premium Tech support, our onboard diagnostic technology in Pocket Geek, we're doing the buyback trade-in. And increasingly, we're doing an extended warranty for year 3 and year 4 of phone ownership. So overall, again, I think we're encouraged by our position. We expect to have continued growth; it just may not be at the same level this year as we've seen in past years.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. No, that's helpful. I guess have you seen any signs of -- on the mobile piece, of customers that are dropping their coverage more than usual? Is that happening at all?

Alan B. Colberg
President, CEO & Director

No. We haven't seen that really at all. If you look at what's happened in prior downturns, our products, because they protect really essential equipment for consumers, whether that's a car or a phone, they tend to be very sticky. And in downturns, the needs tend to be even higher. So we haven't really seen anything. It's certainly something we watch, but we're not seeing any trend there.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Great. I guess last one, if I could. On the auto side, if customers become delinquent on their auto loans, what's the implication to you guys there for the Warranty business?

Alan B. Colberg
President, CEO & Director

I think the short answer is none. It's a single premium product, so we're collecting our funds at the beginning of the sale. So I don't think it affects us at all.

Operator

Our next question is coming from Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

So I wanted to ask about consumers' behavior. And I know we -- you mentioned how you're sharing some of the benefits on the mobile side. But you've got the decline in revenues, but is there any places across your businesses where you're actually seeing some sort of benefit -- maybe on the LPI side, everyone is staying home, so you don't get as many losses there. Can you comment on that at all?

Alan B. Colberg
President, CEO & Director

Well, the first thing I'd say is it's really early in this crisis. So consumers have been adapting and adjusting for 7 or 8 weeks now. So it's early to see what really might happen. So what we're really focused on is, first and foremost, being there to service customers. If you think about it, we have this installed base of 300 million or so customers. They still need our support, whether it's for their phone or their car or their renters insurance, and we've been able to quickly pivot to work-from-home for most of our operating roles, and we've been able to meet and maintain meeting all of our service levels, which is really impressive and a huge thank you to our employees across the globe who've done that. So that's important.

Where might we see trends? I think it's too early to say. What we've seen is, for most things consumers are just being cautious about going out and buying anything at the moment, either because the stores are closed or they don't feel safe going out. We saw the lows so far in this crisis, the first week or 2 of April, with activity levels dropping 40% or 50% across a lot of the channels we serve. We're starting to see a little bit of recovery in the second half of April, although still well below pre-crisis levels.

So again, if you look at our businesses, I think we're well positioned to weather this crisis quite well. We've got that installed base I mentioned. We have the diversity of portfolio. As you mentioned, we have LPI, which will be a countercyclical hedge if we get into that kind of downturn. We've got the embedded earnings on the balance sheet in Auto and Preneed. We do have things like if we do end up with an economic downturn out of this crisis, Auto, for example, generally, you have more used car sales in that environment. And if we sell on a used car, we start to earn much sooner than we do on a new car. And we've got that strong balance sheet and conservative investment philosophy that Richard talked about. So at the end of the day, we're going to continue to monitor all these trends, but we feel well positioned to be there to support our customers and to weather this crisis well.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I also wanted to go back to something you said in your prepared remarks about business interruptions. Can you elaborate on where that exposure was arising from?

Alan B. Colberg
President, CEO & Director

Richard, do you want to take that out?

Richard Steven Dziadzio
Interim Chief Accounting Officer, Controller, Executive VP & CFO

Yes. Maybe I'll take -- sure. Yes, if you remember last year, we had talked about the small commercial businesses that we were underwriting. So it really comes from there. On the other hand, what I would say is, as you heard in the prepared remarks, there's only about 8% of the portfolio remaining. It's been in wind down and run-off for quite some time. So it's a small amount and also the products that we've sold have specific exclusions in them. So that's where that comes from, Gary.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. And then I also wanted to ask about the caution on finances. On the one hand, you're cautious, on the other hand, you did buy back a little bit of stock, you made an acquisition. There's a lot of things that are still moving forward. Maybe this is a layup question. But can you comment on the things that haven't changed? I mean, what is -- what continues to go forward despite the COVID-19?

Alan B. Colberg
President, CEO & Director

Yes. The way we're approaching this, and we are, as we mentioned, fortunate to have an installed base and well positioned to manage through this crisis. So we're trying to strike an appropriate balance between the short-term and being cautious in the long-term where we -- when we come through the other side of this, if you look at where we've been, we had above market profitable growth. We have a long history of very strong capital return and not -- we don't see that changing. When we come out the other side of this, we're going to be as strong with the same kind of track record in front of us as we've had in the last few years as a company. So what we're trying to do is we're being prudent. So things like deferring expenses, holding off on some hiring, being cautious on preserving capital just because you never know. But we are making strategic investments. For example, the investment in AFAS, that is one of the industry-leading franchises in auto. It really fills in for us the geography, particularly in Texas and the Southwest. It also brings capabilities that we can roll across and it's a very low relative execution risk for an M&A deal because we know the company well and we know the business well. So we went ahead and made the decision. And that dialogue has been ongoing with them for quite a while. So we felt it was appropriate. We're also investing -- one of the interesting trends that was already happening but will be accelerated by COVID-19 is the shift to digital, both on sales and service. And we've been investing against that for years. But in this crisis, the acceleration of that has moved forward dramatically. And we've been able to be there and support our clients with that. So we're fortunate we've made that investment, but we're going to continue to invest to move more things to digital. So we're making investments like that, that are against the long-term trends and our kind of strong market positions. And then we're just being cautious, because what we don't know and nobody knows is the duration of how long this might go on and whether we'll have multiple waves of this going on. So we're trying to strike that balance. But we feel really good about where our company is going to be at the other side of this crisis.

Operator

[Operator Instructions] Our next question is coming from Mark Hughes from SunTrust.

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

You mentioned the cut down of the Asian markets is perhaps influencing your trade-in activity. Could you measure or any specific numbers you can share about how much of an impact that was?

Alan B. Colberg
President, CEO & Director

So what you're referring to is, in the early days of the crisis, some of the phones that we end up repairing and not using back in insurance claims are sold around the world. The Asian markets are one of the big markets for that, and that was a -- really shut down kind of the February, March type time frame. We haven't sized it, but you can see some of the pressure in Q1 Lifestyle margins were really on that. It was the fact we had to find alternative channels on short notice to be able to get rid of those phones. Now the positive is those markets are back open, we just don't have the same activity level that we would have had in a pre-crisis environment.

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

And then how does the lender-placed insurance work with the forbearance plans? If people are under forbearance and it goes 3, 6 months, how does the lender-placed insurance interact with them?

Alan B. Colberg
President, CEO & Director

Yes. I think the important thing to remember first is that the majority of mortgage loans aren't in forbearance. So I think -- I haven't seen the statistics this week, but it's under 10% that are in forbearance. So for 90%-plus of our business, it's just as normal. If someone ends up being seriously delinquent or out of the home, it's the same process we've always had. For mortgage forbearance, obviously, nothing happens, right? So as long as a mortgage is in that stage, it's not going to move into serious delinquency. So for that small sliver of the market, we will still be tracking the loan, we just won't be doing anything while the mortgages are in forbearance.

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

And then who is actually covering the -- providing insurance on the property if it's in forbearance? If the homeowner's insurer is -- I'm not sure how long they're going to provide a grace period to the consumer or the borrower? But at some point, one would assume they're going to drop off. So does the bank assume the insurance coverage? How does that work?

Richard Steven Dziadzio
Interim Chief Accounting Officer, Controller, Executive VP & CFO

No. I mean...

Alan B. Colberg
President, CEO & Director

No. It's a good question, Mark. It's early days. For now, I think the majority of voluntary carriers are still providing that insurance. And there's not a rush by the voluntary players to cancel people's insurance at the moment. If they were canceled, we would then trigger a letter cycle likely, our normal process. At the end of the day, that service we provide is critical for the mortgage industry and we would step in. But for now, we're not seeing anything really happening with the forbearance mortgages that are in the market.

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

Right. But if they were in forbearance, but their underlying homeowners insurance had dropped off, then your letter cycle would kick in?

Alan B. Colberg
President, CEO & Director

Right. Absolutely. And our primary focus, though, across all these businesses is continuing to be there. And what I'm most proud of, of many things I'm proud of how our employees who responded here is we really have been able to sustain so far all of our service levels and continue to be there. For example, in lender-placed, we do a lot of the processing what are called loss drafts and supporting consumers who are repairing their homes. We're functioning as normal, even in this environment there. So I'm very proud of that.

All right. I think that's the end of questions. I want to thank everyone for participating in today's call. We will update you on our progress on our second quarter earnings call in early August. In the meantime, please reach out to either Suzanne Shepherd or Sean Moshier with any follow-up questions you have. Thanks, everyone.

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