S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

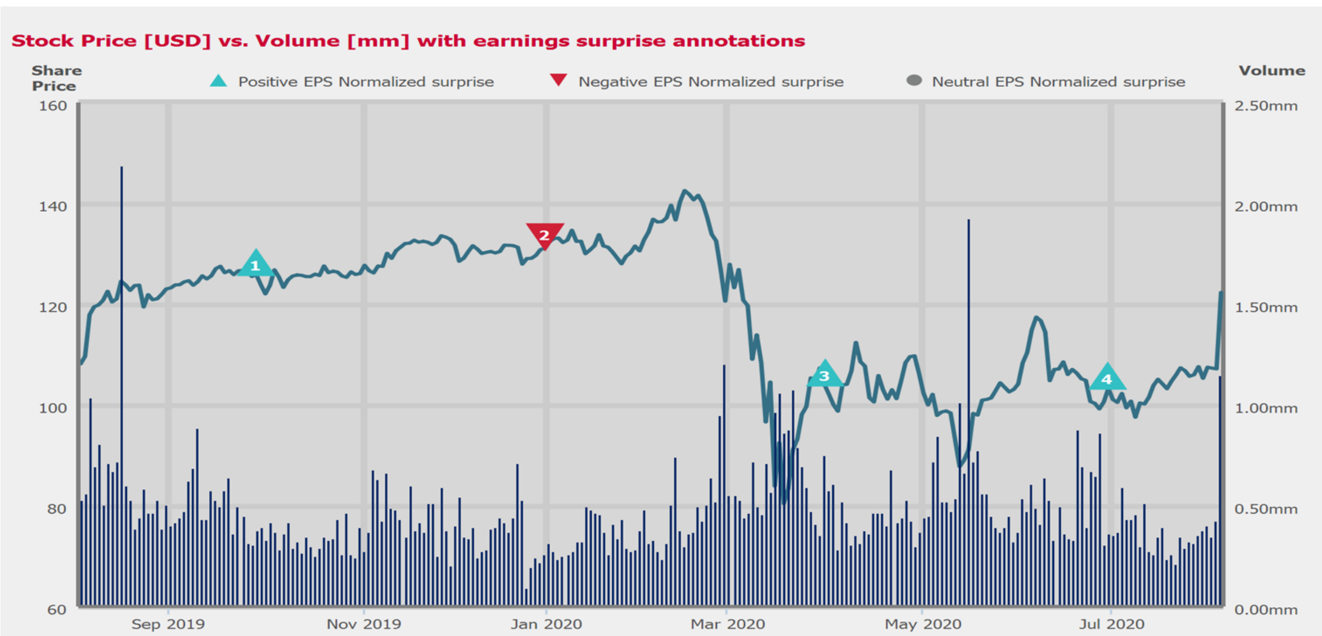
FQ2 2020 Earnings Call Transcripts

Wednesday, August 05, 2020 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.12	2.75	▲29.72	1.91	9.60	NA
Revenue (mm)	2581.37	2471.60	▼(4.25 %)	2434.33	10018.63	NA

Currency: USD
Consensus as of Aug-05-2020 6:06 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	1.66	1.69	▲1 1.81 %
FQ4 2019	2.35	2.25	▼2 (4.26 %)
FQ1 2020	2.43	2.64	▲3 8.64 %
FQ2 2020	2.12	2.75	▲4 29.72 %

Table of Contents

Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Richard Steven Dziadzio
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
Truist Securities, Inc., Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

Presentation

Operator

Welcome to Assurant's Second 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, 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 second 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 second 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. We're pleased with our second quarter performance. We reported operating earnings per share, excluding catastrophe losses, of $2.90, up 27% from the prior year period. Net operating income for the quarter, also excluding catastrophe losses, was $179 million, an increase of 24% from last year, demonstrating the continued strength and resiliency of our business.

Results were above our expectations, reflecting the stability of our large installed customer base, significant client partnerships and embedded growth in Global Lifestyle. We also benefited from improved results in Global Housing. Declines in investment income and foreign exchange were more than offset by lower claims activity and expense management efforts.

The initial negative impacts from COVID-19 in April gradually improved in May and June, resulting in a modest net positive to overall net operating income in the quarter.

Year-to-date, net operating earnings per share, excluding catastrophe losses, grew 24%, and net operating income increased 21%. Even after adjusting for $16 million of onetime items during the first half of the year, our results came in at the high end of our modeled pandemic scenarios.

Given our strong performance in the first half and improved visibility for remainder of the year, we have decided to reinstate and increase our outlook for full year 2020. We now expect 12% to 16% growth in operating earnings per share, excluding catastrophe losses, an increase from our initial outlook of 10% to 14%. This reflects continued growth in Connected Living, expansion within multifamily housing and improved profitability in our specialty business.

Our outlook assumes a continuation of current business trends and therefore, does not take into account a material increase in infection rates from COVID-19, which could lead to a significant change in consumer behavior, access to distribution channels or impact to financial markets.

While we expect earnings growth in the second half on a year-over-year basis, our outlook for the full year assumes a decline in earnings from the first 6 months of this year as we anticipate more normalized claims activity across most of our businesses and make incremental investments in our digital and customer experience capabilities.

The second half of the year will also reflect lower investment income and foreign exchange headwinds, the absence of $16 million of onetime benefits as well as typical mobile seasonality.

Looking at our balance sheet. Our liquidity position remains strong. In July, we repaid the $200 million credit facility draws in late March, which was done as a precautionary measure.

Given the attractiveness of our stock and strong capital position, we expect to resume share repurchases in the third quarter, and we continue to expect to reach our objective of returning $1.35 billion of capital to shareholders between 2019 and 2021. As always, this is subject to a variety of factors, including no significant deterioration of economic or market conditions.

Recent market transactions across our space further reinforce our view that our stock remains attractively priced. Earnings momentum in Global Lifestyle continues to be strong, driven in particular by Connected Living. This business had a compound annual earnings growth rate of 38% between 2015 and 2019 led by mobile.

Our installed base of customers, which represent a significant monthly recurring revenue stream, continues to expand. We are now at over 53 million mobile subscribers, up 70% since 2015. We've continued to provide value to consumers through services like trade in, upgrade and technology support as part of our fee-based offerings, resulting in a better ownership experience and multiple profit pools beyond device protection.

At the same time, we've continued to deepen our partnerships with market leaders to drive long-term profitable growth. We are pleased to announce that as Sprint becomes part of T-Mobile, we'll offer device protection to those new T-Mobile customers. We believe this is another example to support the long-term growth of our Connected Living business, and we are proud of our long-standing partnership with T-Mobile.

In August, we also strengthened our mobile device trading capabilities in Asia Pacific through the purchase of Alegre, a leading operator in the preowned mobile device market. After a small initial investment in 2018, we acquired the remaining equity for $12 million.

Turning to Global Automotive. Our installed base now includes over 48 million vehicles. We've continued to strengthen our client partnerships by working with them to enhance the digital customer experience, offering live online dealer training and sales webinars. We will continue to use our scale and diverse distribution channels to grow the business over the long term, especially as we look at future opportunities with the connected car.

Moving to Global Housing. Our lender-placed insurance and renters businesses both continue to contribute to our attractive above-market returns. Our lender-placed business plays a unique and vital role within the housing market, protecting both lenders and homeowners. We track over 32 million loans, including for 8 of the top 10 largest U.S. mortgage servicers. Since the beginning of 2019, we have renewed relationships with clients that represent nearly 80% of our loans tracked, solidifying our position as a market leader.

We've been investing in a new technology platform to improve the customer experience. In addition, we've made progress with our efforts to streamline and reduce our operational cost.

In our renters business, we've built a leadership position over the last 15 years. We now cover over 2.3 million renters and generate over $400 million in annual revenue. Since 2015, we've grown earnings at an 18% compound annual growth rate, with multifamily now representing roughly 1/3 of Global Housing's 2019 net operating income, excluding catastrophes, illustrating the franchise strength. We'll continue to invest to enhance the customer experience as this remains an important growth business for the company, especially as we think ahead of supporting consumers within the connected world.

And in Global Preneed, we have more than 2 million policies and growing. This business, over time, gives us strong distributable cash flows with statutory earnings greater than GAAP earnings. Overall, the level of mortality risk remains lower relative to other life insurance-type products, ultimately contributing to above-market returns.

More recently, we've introduced new fee-for-service offerings to support the growing senior lifestyle market such as Executor Assist. We believe our overall portfolio represents a compelling mix of above-market growth in countercyclical businesses with leading positions and a track record of innovation. These businesses generate significant cash flow to reinvest and return capital to shareholders. These are key characteristics, which we believe set us apart as a long-term outperformer and enable us to create value for our shareholders even against the backdrop of uncertainty in the global macro environment.

Before I turn it over to Richard, I want to take a moment to thank our employees for their unwavering focus in supporting each other and our customers during this time. In the past few months, we've taken additional steps to support our employees through an array of actions. These have included onetime relief payments for work-from-home employees, incentive bonuses for on-site staff, providing additional floating holidays and a number of well-being and mental health support services. The cost for these programs and other incremental expenses directly related to COVID-19 are reflected in net income, similar to last quarter. I'm proud and grateful for the exceptional service our employees have and continue to provide on behalf of our clients and our 300 million customers worldwide.

While in the midst of grappling with COVID-19, we've also recognized the need to continue to advance diversity and inclusion at Assurant and within the communities we serve, particularly in light of the tragic murder of George Floyd and many others. For us, diversity and inclusion is not only about common decency and common sense, but is also a strategic and business imperative. Building on past initiatives, we've hosted candid, enterprise-wide conversations with our employees on race to ensure that we recognize these issues in our society and within the workplace. We are evaluating additional actions to support in a more diverse, equitable and inclusive community.

All of this has continued to reinforce the criticality of supporting the evolving needs of all of our key stakeholders with purpose and commitment. In July, we announced several organizational changes to enable us to deliver on those objectives more effectively.

Under the leadership of Francesca Luthi in a newly created role as Chief Administrative Officer, we have realigned human resources, facilities and procurement, along with marketing, communications, Investor Relations and corporate social responsibility, a move, I believe, is critical to ensure we bring a holistic view to integrated stakeholder management, while at the same time, elevating the employee experience to attract and retain the best and most diverse talent for the future.

We also promoted Jay Rosenblum to Chief Legal Officer. He had been serving in that role in an interim capacity since February after joining us last year to lead our government relations and regulatory affairs team. Jay's diverse experience spans 25 years in various legal and HR roles, and I'm pleased to have him lead our global legal function.

Overall, I'm exceptionally proud of our leaders and our 14,000 employees in how they have and will continue to live our values.

I'll now turn the call over to Richard to review second quarter results, recent trends and our updated 2020 outlook in more detail. Richard?

Richard Steven Dziadzio
Executive VP & CFO

Thank you, Alan, and good morning, everyone. Let's start with Global Lifestyle. The segment reported earnings of $122 million, up 11% compared to the prior year period. This increase was primarily driven by continued mobile growth, mainly from programs added in the last several years in North America and Asia Pacific. Lower claims activity outside of the U.S. in Connected Living and auto also drove improved results.

Our mobile trade-in business benefited from higher average selling prices due to scarce supply for used devices. This was partially offset by lower overall volumes due to COVID-19.

Global Automotive reflected a $4 million discrete client benefit in addition to reduced claims activity, mainly from our OEM clients outside of the U.S. as a result of COVID-19 stay-at-home orders.

Overall earnings growth was partially offset by a decline in Global Financial Services from weaker results in Canada and anticipated declines in legacy credit insurance. Unfavorable foreign exchange also pressured results in the quarter.

Looking at total revenue for lifestyle. Net earned premiums and fees were down $40 million or 2%. The decrease was driven primarily by lower mobile trade-in volumes due to store closures from COVID-19 and foreign exchange movements. This was partially offset by increased enrollment in new mobile programs, especially as carrier stores began to reopen in the latter part of the quarter.

Within Globe Automotive, revenue grew 3%, primarily reflecting prior period sales of vehicle service contracts. Sales in auto have rebounded since April and are nearly back to pre-COVID levels year-over-year. We will continue to monitor trends as sales levels today will impact future earnings for the business.

Looking forward to full year 2020, we expect growth in lifestyle's net operating income compared to full year 2019. However, we also expect that earnings in the second half of the year will be lower compared to the strong first half results. This is due to 5 key factors.

First, we recognized $16 million of onetime benefits in the first 6 months of the year, $4 million of which was incurred in the second quarter. We do not expect these items to reoccur in the second half of the year.

Second, we expect claims activity in Connected Living and auto to normalize at higher levels in the coming quarters as the global economy continues to reopen.

Third, similar to previous years, the timing and availability for new phone introductions will impact trade-in activity in the second half of the year. We are not, though, assuming any material increases in volumes before year-end.

Fourth, we're ramping up our investments in digital and customer experience capabilities to further increase our competitive differentiation.

And finally, we expect both foreign exchange and lower investment income to remain headwinds into the second half of the year.

I will also note that effective July 1, following a change in contract terms, we're transitioning our revenue accounting treatment from a gross sales basis per device to a flat fee per device for one of our mobile trade-in and upgrade programs. This will reduce our fees and other income by approximately $275 million on an annualized basis. Lower cost of goods sold, embedded in lifestyle's SG&A, will substantially offset this decrease.

We are pleased with this change as it will remove some of the revenue and expense variability we have historically seen in our financial results. It will also mitigate supply and demand pricing risk in the future.

Moving now to Global Housing. Net operating income for the second quarter totaled $85 million, an increase of $14 million or 19% year-over-year despite higher reportable catastrophes. Excluding catastrophe losses, earnings of $96 million represented an increase of $27 million or 39% year-over-year. Just over half of the increase was due to favorable noncat loss experienced across all major products, reflecting lower overall claims frequency and improvements in underwriting, including the benefits from artificial intelligence and claims processing initiatives. Also the absence of losses from small commercial, along with growth in certain other specialty products, contributed to the increase.

Lender-placed results increased year-over-year. Higher premium rates and favorable loss experience were partially offset by a reduction of policies in force. This reduction was mainly related to the previously disclosed financially insolvent client and lower REO volumes due to the current foreclosure moratoriums.

The modest sequential increase in the placement rate to 1.56% was attributable to a shift in business mix. It is not an indication of broader macro housing market shifts.

Multifamily housing earnings were up slightly due to favorable noncatastrophe loss experience and modest growth from affinity partners.

Turning to Global Housing revenues. Net earned premiums and fees decreased 4%, mainly from 3 items: insolvent client, low REO volumes and the exit of small commercial. This decrease was partially offset by growth in our Specialty Property and multifamily housing businesses.

Moving to multifamily housing. Revenue increased 4% year-over-year driven mainly by growth from our affinity partners. The impact of COVID-19 has been minimal year-to-date, although we continue to monitor state actions related to premium deferrals.

At the end of June, we completed our 2020 catastrophe reinsurance program, maintaining our $80 million per event retention and increasing our multiyear coverage to nearly 50% of our U.S. power. We also reduced our overall risk exposure, primarily through the exit of small commercial. Overall, we were able to leverage strong relationships with our reinsurance partners to keep rate increases on the lower end of the overall market, but we also recognize those higher costs may persist into the future.

Looking forward to the full year 2020, we expect Global Housing net operating income, excluding cats, to increase over full year 2019 earnings driven by improved results in our specialty businesses and growth in multifamily housing. We also believe the results for the second half of the year will be lower than the first half for Global Housing. This is due to 4 key factors: first, we expect a more normalized level of claims frequency as previously mentioned; second, we expect REO volumes to continue to be reduced throughout the remainder of the year; third, the absence of income from the financially insolvent client and lender-placed; and finally, this segment will also continue to be impacted by lower investment income due to the lower yields available in the current interest rate environment.

While lender-placed should grow due to the countercyclical nature of the business if economic conditions worsen, today's mortgage industry and economic environment differs significantly from the housing crisis over 10 years ago. For example, mortgage loan underwriting standards have tightened, with the number of subprime and adjustable rate mortgages down over 60%, and homeowners today have higher rates of home equity compared to that period.

Now let's move to Global Preneed. The segment reported $14 million of net operating income, a $3 million decrease compared to the second quarter of 2019. This was driven by a combination of lower investment yields and a modest increase in mortality due to COVID-19. We continue to monitor mortality trends, especially in California, Texas and South Carolina, given our policy concentration in those areas. So far, we have not experienced significant increases.

Revenue for Preneed was up slightly, supported by sales in the U.S. And while face sales have begun to rebound recently given funeral home reopenings and increased online sales since April, July year-over-year face sales were still down approximately 15%. We would expect new sales to continue to fluctuate. Overall, for Global Preneed, we believe 2020 earnings will increase modestly compared to 2019 reported results.

For the second half of the year, we expect earnings to be up slightly versus the first half of the year due to more favorable mortality trends. We'll continue to monitor these trends as our current outlook does not assume a significant worsening in COVID-19 cases. We expect the reduction in mortality to be partially offset by investment income declines.

At corporate, the net operating loss was $27 million versus $24 million in the second quarter of 2019. This was due to a lower tax rate from the consolidating tax rate adjustment and less investment income from lower yields on cash assets. For the full year, we expect the corporate net operating loss to be in the range of $86 million to $90 million as the result of lower investment income and onetime transition costs associated with the outsourcing of our investment management function.

Across Assurant, our ongoing expense management efforts are contributing to our results. In addition, this year, we benefited from lower travel expenses due to COVID-19 restrictions as well as a reduction in discretionary spending, including deferring hiring for some positions. We are though filling all critical roles, particularly those needed to meet our client customer expectations. As we look to sustain profitable growth, we expect to continue to invest in our core capabilities in the upcoming quarters, while closely managing discretionary spend, given the continued uncertainty from COVID-19.

Next, I want to provide a brief update on our investment portfolio. Overall, our $12.6 billion portfolio of fixed maturities is of high quality, well diversified and managed for its income yield with low turnover. And as previously mentioned, we have minimal exposure to harder-hit sectors like energy, hospitality, retail stores and airlines.

Investment yield on our total investment portfolio dropped by 55 basis points year-over-year to 3.62%. This was largely driven by a decline in short-term cash yields. While we continue to manage the portfolio to preserve yield, our expectation is that our investment income will remain under pressure for some time as we do expect interest rates will remain relatively low for the foreseeable future. However, we believe our consistent investment approach will continue to serve us well as it has in the past.

In conjunction with our decision to outsource the management of our core investment portfolio, we sold our CLO platform for a modest gain in July. The sale will be recorded in the third quarter. While we will still have a small amount of investments in CLOs, our exposure to the asset class has been significantly reduced.

Turning to holding company liquidity. We ended June with $357 million or $132 million above our current minimum target level. This excludes the $200 million credit facility draw, which was reimbursed in July.

In the second quarter, dividends from our operating segments totaled $157 million or 71% of segment earnings. In addition to our quarterly corporate and interest expenses, we also bought back $26 million of stock.

As we have indicated, we slowed and then ultimately paused share repurchases in the second quarter. We paid $44 million in common and preferred stock and dividends. We acquired AFAS for $158 million, and we sold EK, which resulted in a cash outflow of $51 million from the holding company.

In late July, we also received a onetime tax cash benefit related to the acceleration of our net operating losses, included in the CARES Act passed in March. As a result, liquidity at the holding company will increase by $84 million in the third quarter.

For the full year, we expect segment dividends to approximate segment earnings. This is subject to the growth of the businesses, rating agency and regulatory capital requirements and the performance of the investment portfolio.

As Alan mentioned, we expect to resume buybacks in the third quarter, and we'll continue to manage our capital prudently. Our approach to buybacks will be measured as we continue to monitor business performance as well as the broader macroeconomic and credit market environments.

In summary, we demonstrated strong first half performance, while navigating the challenges of COVID-19. As we focus on continuing to deliver on our financial commitments for 2020, we will continue to invest in our growth businesses for the future while monitoring global market trends.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Mark Hughes of Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Could you talk about the T-Mobile announcement? It sounds like you're going to be providing mobile contract services to new customers. Is there -- could you give a little detail? Is this going to include the back book as well? Is it just new customers? What's the timing, potential financial impact, all of that?

Alan B. Colberg
President, CEO & Director

Yes. No, Mark, thank you for the question. I'd start by saying, we're very proud to be T-Mobile's partner for the past decade and assisting them in their journey to be the uncarrier. As they migrate the stores over, the legacy Sprint stores, which they started last weekend, we will be offering our device protection program to all of the legacy Sprint customers as they come into a store. So that's very positive. It is only go forward, though, which is typical in our market. So we're starting with 0 former Sprint customers. It will take time to grow that book of business, although, obviously, it's a very positive long-term thing. And we're going to be investing as the program starts ramping over the next month or 2 or quarters or so. But again, very positive, and we're really proud of the partnership we've built with T-Mobile.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then I assume this is publicly available, but the pace of new Sprint customers, any sense on that you can share?

Alan B. Colberg
President, CEO & Director

Yes. I think it would just be what we normally see, which is over a cycle, call it, somewhere around 3 to 4 years is when people come into the store to turn in their handset, get a new handset or purchase a new one. So we would -- it's similar to the other programs we've launched in the last couple of years. We would expect it to grow and build over the next 3-plus years.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

That's great. You talked about the mobile contract. Overall, you had mentioned in the auto business that you were pretty close to where you were pre-COVID. How about on the mobile service contracts, your kind of sales trajectory as you sit here today versus pre-COVID?

Alan B. Colberg
President, CEO & Director

Yes. If I step back a little farther and talk about broadly the impacts from COVID on mobile, what we've seen over the last quarter or so is lower trade-in volumes really as stores were closed and there was disruption in the marketplace. We were fortunate that, that was offset by higher margins as we went through the quarter. But we definitely have seen lower trade-in volumes, although that's now recovered as we head into June and July. Things have really returned more back to pre-COVID.

If you look at our subscriber count, we feel great about where we are. Our installed base is 53 million. We continue to grow in the U.S. and Japan, which are critical markets. We did see pressure in Latin America, which is really the most disrupted region globally in terms of new sales. But overall, it's really a large recurring revenue base that really sets us up well for the future.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

The losses in housing, the underlying losses, I think you'd mentioned you got some benefit from favorable weather, which, frankly, it seems you run counter to many or most other carriers, but then you've got some benefit from better underwriting and claims processing. I think you mentioned use of the AI. Could you talk about that? How much does that mean for your losses if this persists?

Alan B. Colberg
President, CEO & Director

Yes. Maybe I'll start and, Richard, feel free to add on to this. If we look at kind of the noncat loss ratio, it was a little bit below what we normally see, really driven by a couple of things. With people at home, there was less loss and death. There was less water damage. We mentioned a little bit less weather just in the quarter.

Equally importantly, we've been investing over the last few years in our AI and underwriting initiatives. And we're starting to see the real benefits of that in a dramatically better customer experience with much quicker payment of claims, much faster processing. But Richard, what would you add?

Richard Steven Dziadzio
Executive VP & CFO

Yes. Thank you. Just a few things, Mark. Good question. I think part of it, obviously, people are staying home. And so COVID, I think, in some respect, helped us during this period as they're watching their houses a little more closely. So as Alan said, really the AI initiatives, the claims initiatives that we have really help us with efficiency and just staying on top of claims much better and processing them better.

I'd also say that the underwriting has improved. Last year, we talked about small commercial and some losses we had there. We got out of that business. So that's a plus for us. That won't come back. And also within our specialty area, we've looked at -- we talked about a single contract with a client that we changed significantly. So all of these things will bode well for us in the future.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Then just a final one, the $275 million you mentioned in the trade-in you're going to be rather than growth, that will all show up in the fee line in -- is that neutral to earnings?

Richard Steven Dziadzio
Executive VP & CFO

Alan, do you want me to take that?

Alan B. Colberg
President, CEO & Director

Yes, please, Richard.

Richard Steven Dziadzio
Executive VP & CFO

Yes. So yes, the $275 million, that's the contract change that we have in lifestyle that you're referring to. That's an annualized impact that will have. And if you think about it before, we were actually buying in the units and then selling them out. So we had kind of the gross amount going through the fee income, net amounts going to cost of goods sold. Now we're more administrating that business. So you'll see those 2 lines go down, the income line but also cost of goods sold. The SG&A line, that we show in the supplement, will go down as well.

And then I guess the other thing that we pointed out in our prepared remarks is we think it's a really good move for us. It provides more stability in terms of that trade-in business. It takes some of the pricing risk out from us. So all in all, we're really pleased with it. We did want to set up to the market that revenues will go down, but we're not expecting a material bottom line impact on that.

Operator

Our next question comes from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here for you. First one, just back on the whole T-Mobile transaction, is it possible to frame kind of what the potential revenue opportunity is from picking up the additional Sprint customers?

Alan B. Colberg
President, CEO & Director

What I'd look at is you can see publicly how many subscribers Sprint has and you can assume over the next 3 years, we'll pick up those subscribers. So that's how I think about it. But other than that, we generally don't talk about client specifics, but it is a very positive development for our mobile franchise.

Brian Robert Meredith
UBS Investment Bank, Research Division

And just curious, as I think about it historically, when you pick up a large customer like that, it's kind of a drag on earnings, maybe for a year or so. Should we still expect that?

Alan B. Colberg
President, CEO & Director

That's typically the case as we have the upfront cost for things like integrating technology for regulatory filings, for marketing, for training. So we're in the middle of starting to invest those costs right now. So it certainly is a bit of a drag in the short term, but a very positive long term.

Brian Robert Meredith
UBS Investment Bank, Research Division

Sure. No, absolutely. And then I'm assuming it's in your guidance for the year. So you're expecting that to kind of kick up in the second half.

Alan B. Colberg
President, CEO & Director

Yes, the investments, right? Because we start, again, as I mentioned earlier, we start with no subscribers from legacy Sprint, but it will build over time as we go through the next few years.

Brian Robert Meredith
UBS Investment Bank, Research Division

Terrific. And then a quick question here on the LPI business. I understand that better quality mortgages today for closures are probably delaying some of the activity there, penetration. But have you got any statistics? Or do you take a look at what mortgage delinquencies and how they track relative to your LPI penetration?

Alan B. Colberg
President, CEO & Director

Yes. So a couple of thoughts on that. So we want to be clear. We don't expect the benefit in LPI this year. If you look at what's going on with mortgage forbearance, we're actually -- it's a bit of a COVID-19 headwind. We're seeing lower REO volumes and that's impacting 2020's outlook.

But if you look broadly at the housing market, we are starting to see delinquencies begin to creep up. And obviously, our product is an important product that protects both consumer and the banks. And we're well positioned if the housing market does weaken for a growth there in 2021 and beyond.

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes. That's -- I mean if you just -- looking more at 2021, I didn't know if you've got any kind of correlation statistics as mortgage delinquency trends are bit standing, they're running around 7%. Does that equate to a certain amount of penetration that you typically see?

Alan B. Colberg
President, CEO & Director

Yes. What I would say is we're monitoring what's happening there. There is always a lag in our placement, but we're well positioned. And it's just hard to predict whether those delinquencies will translate into our product being placed or not just given what's going on currently in the market. But we do feel well positioned, and we do anticipate there'll be upside in 2021 and beyond if the economy weakens.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then last question here. I'm just curious, any thoughts on the Bank of America renewal? Obviously, NatGen is getting purchased by Allstate. Any thoughts around that when that could potentially happen?

Alan B. Colberg
President, CEO & Director

Yes. So as it's been talked about previously, it's common knowledge that, that RFP is in the market, which is the first time that we've ever had a chance in the last decade to participate in that business. And we'll see what happens over time, but we do believe we have the industry-leading capability in the market. We've been investing heavily in our technology. We offer a superior client and consumer experience. So we'll see what happens, but we feel well positioned for any piece of business that comes into the market.

Operator

Your next question comes from Michael Phillips of Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

So like first off, just high level on the revised outlook, I guess, how do we think about -- we've seen some reversal in open -- reopenings and some uptick in cases across the country and more concerns there. So how do we match that with your uptick in your outlook with your comment that it doesn't contemplate in the uptick in COVID infection rates?

Alan B. Colberg
President, CEO & Director

Yes. So I think the starting point is our business is really driven by our installed base. And that large installed base have nearly 300 million customers, over 300 million customers is there. We have a very resilient business. And what we've seen even in July, for example, if you go through the various sectors, auto new sales of our products in July were back at or above pre-COVID levels even as there's disruption in the U.S. marketplace. If you look at mobile, we mentioned that trade-in activity in July was back what we expected earlier in the year. Multifamily, we were impacted early by COVID, clearly. But as we've gotten into July, we've again seen the new sales rebound and be back to what we expected to see. So pretty much across the board. The exception is probably Preneed. Preneed new sales are still lagging 10% to 15% below where they were same year pre-COVID.

But our business is strong and really driven by that installed base. And so the other important point I'd make is, as we talked about in the prepared remarks, we still expect to grow second half of '19 -- sorry, second half of '20 versus second half of '19 despite some of the uncertainty and headwinds from COVID-19. So we'll certainly continue to monitor it, but we feel good about the business trends we're seeing in our portfolio.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. That's helpful. And just a couple of little nuances here. One more question. You've talked previously about some places that were overseas where things were shut down, I think, Hong Kong, some trade imposes in Hong Kong. Any impact this quarter on things like that? And are those places up and running again? Or should we expect kind of a future impact from those going forward?

Alan B. Colberg
President, CEO & Director

Yes. So just to clarify on that comment, what we were referring to there is in the first quarter, we had some disruption in our ability to sell phones into Hong Kong and China. This goes back to January and February. That normalized in February. And as the virus migrated from East to West, we've not seen any further disruptions in Asia Pacific.

If you look around the world, the market that's been most disrupted broadly is Latin America. And we've seen a greater impact on new sales in that geography than anywhere else in the world. We are seeing a little bit lower claims than expected in places like Europe, again, probably a reflection of the shutdown, but we're starting to see that normalize as we head into Q3. So at this point, we see things trending kind of back to normal, both on new sales as well as on claims.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. And then multifamily housing, typically, you get a bit of a bump there because of some time. I assume there's a little bit of an impact there. Can you talk about that and maybe any impact on, I guess, demand? Or any impacts on the rental business because of the recession?

Alan B. Colberg
President, CEO & Director

Yes. We were clearly impacted back in the second half of March and April as people just didn't move, but that has rebounded. And our sales are pretty much back to what we expect this for in July. So we were off track, but pretty much back on track now. And if I really step back on our multifamily business, we're really proud of the franchise we've built. We now have 2.3 million policyholders. We're profitable. We've been growing that franchise rapidly. Over the last few years, we've outgrown the market, even as different competitors have entered. And it's really driven by our strong diverse distribution with both property management companies as well as our affinity partners. It's driven by our ongoing investments in digital and CX, which helps us sustain a really competitive, attractive product for consumers.

And then we've got a lot of potential over time with our point-of-lease product, which has gone slowly this year just as landlords have been disrupted with COVID-19. But over time, we expect penetration to grow as we roll out our point-of-lease, which really provides a seamless kind of consumer experience as they move into a property.

Operator

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

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to see if I could tie the new guidance at least a little bit into the original Investor Day guidance of the 12% going into 2021. It sounds like you're ahead of what you originally were talking about at this point. And I just -- can you add any commentary on what your new guidance might mean for that old guidance?

Alan B. Colberg
President, CEO & Director

Yes. No, Gary, it's a very fair question. We do always look at a multiyear period because over time, short-term fluctuations might impact any given year. But if you look at net operating earnings growth, so this is ex cat, not EPS, but earnings, we grew earnings 11% last year. If you look at the midpoint of our new outlook, we're looking at, at least 12% earnings growth this year. So we're ahead both in '19 and '20 versus our long term.

So as we think about 2021, I would say a few things. We have a strong track record of profitable growth. I think we've demonstrated that we have a resilient business model that's been proven to be able to navigate the pandemic. We have strong cash flow generation, and we still expect to grow in 2021. It's obviously very early. So we haven't completed all of our planning and modeling for next year. But we are ahead. And so we may grow a little slower next year than we might have originally thought just because we've grown more rapidly in '19 and '20.

But we remain confident that we will continue to grow earnings over time and next year really driven off of our installed base of customers, some of the new programs that we've just won. And we just announced, for example, the Sprint, T-Mobile. And just -- we continue to expand our offerings. The purchase of Alegre in Australia is another example, which really allows us to strengthen our repair and logistics capability, not only in Australia but in Asia Pacific. So we'll provide an update later, but we feel good about the long-term profitable growth of our company.

Gary Kent Ransom
Dowling & Partners Securities, LLC

That's helpful. I -- a slightly related question. Is this dip in revenues that you saw and maybe this is mostly about auto, but was it a big enough dip that it will actually affect what we see in the earned premium and fees as it gets earned out in the future somewhere? Will there be an echo of this? Or is that -- am I kind of maybe making too much out of that?

Richard Steven Dziadzio
Executive VP & CFO

Alan, do you want me to take that?

Alan B. Colberg
President, CEO & Director

Yes, please. Yes, please, Richard.

Richard Steven Dziadzio
Executive VP & CFO

Yes. It's a good question. I mean what we're really seeing is a quarter, a dip and primarily from March and April when the dealerships closed down. And as you know, the unearned premium actually earns out over a number of years, call -- think about 3 to 5 years in the future. So the way I think about it, it's a small thing. I think you used the word echo maybe. But dealerships, as Alan said, are now opening, our volumes are back. So I wouldn't think that going long term, we would see much of an impact, if anything, from just this blip in the last couple of months there, March, April.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay, that's fair.

Alan B. Colberg
President, CEO & Director

Yes, Richard. Yes. What I'd also add is, if you look at car sales, car sales are still down a little bit, but our volumes have more than recovered, which is what we normally see in economic downturns. Dealers work harder to place our products when they're having fewer car sales, and we're definitely seeing that in June, July.

Gary Kent Ransom
Dowling & Partners Securities, LLC

And one more over on the renters product. We had a public company or an IPO of Lemonade with a new technology. And I wondered if -- how you think about that. If that's a threat at all? Or just if you have any comments about it?

Alan B. Colberg
President, CEO & Director

Yes. We spend a lot of time looking at our markets and potential new entrants and any changes in the marketplace. And what I would say is over the last couple of years even as new entrants have come in, we have continued to outgrow the market and gain market share. And it's really a function of our strength in distribution as well as the investments we've made and continue to make in digital and CX. So we feel good about our position, and we expect continued growth in multifamily regardless of who's entering the market.

Operator

Our final question comes from Mark Hughes of Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. The typical penetration when we think about the Sprint customer base, are you able to share what their current penetration is in terms of service contracts? Or just broadly speaking, what might one expect? We look at their overall subscriber count, but presumably some portion of that are actually going to be service contract customers, the right ratio to think?

Alan B. Colberg
President, CEO & Director

Yes. Without commenting on a specific client because we normally don't do that, if you look at the U.S., the average penetration now for our product is, call it, roughly high 40s, high 40s percent. So you could assume something like that over time for new clients as well.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then NatGen, the -- their acquisition by Allstate, do you expect Allstate to do anything here in the lender-placed market?

Alan B. Colberg
President, CEO & Director

I couldn't really speculate on what Allstate might do. What I would say is we are in a very good position, right? So we mentioned on the prepared remarks that over the last year or so, we've renewed 80% plus of our tracked loans. That was in part as we're rolling out our new technology, which is a real differentiator. We wanted to work with our clients to make sure our business was solid and in place. So I think our track record speaks for itself. And we feel like we have a strong and compelling proposition, no matter who we're competing against.

All right. I think that's it for questions. So I want to thank everyone for participating in today's call.

In summary, we had a strong second quarter and a strong first half of the year. We will continue to monitor trends in the global market related to COVID-19, but we believe we are well positioned to deliver on our strategy and financial objectives, both in 2020 and beyond.

We'll update you on our progress on our third quarter earnings call in November. In the meantime, please reach out to either Suzanne Shepherd or 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.