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Market Intelligence

Assurant, Inc. NYSE:AIZ

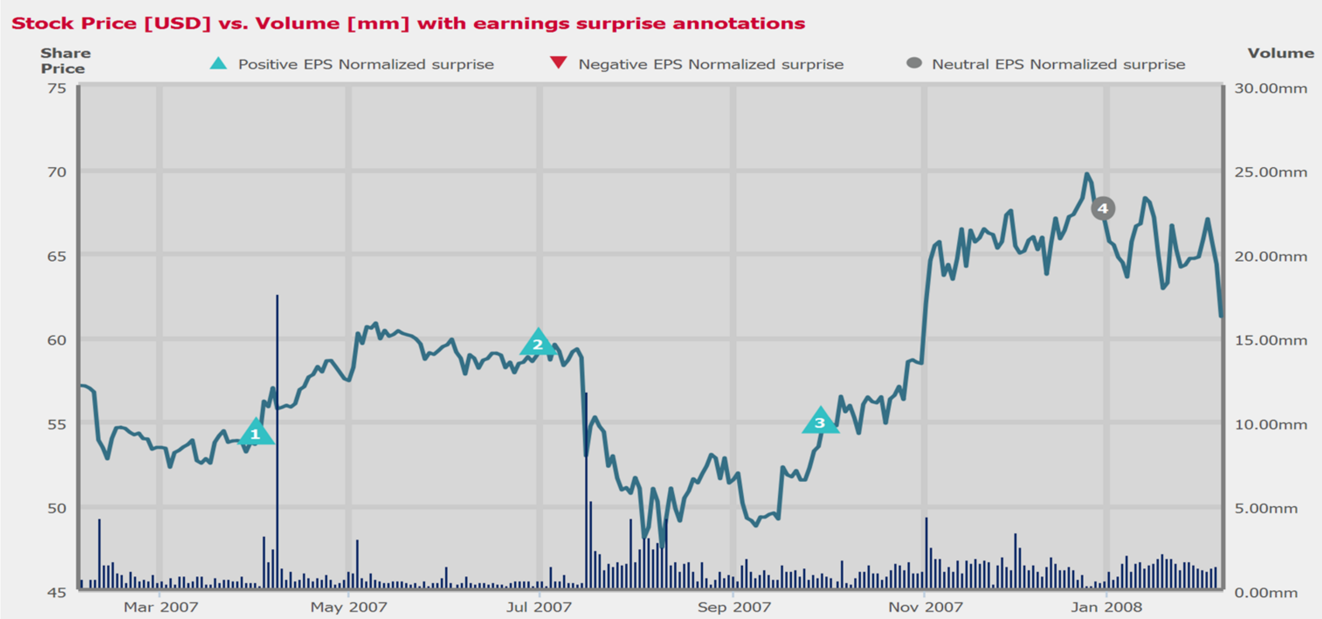
FQ1 2008 Earnings Call Transcripts

Thursday, May 01, 2008 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2008-			-FQ2 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.51	1.80	▲19.21	1.58	6.24	6.87
Revenue	-	-	▲(2.29 %)	-	-	-
Revenue (mm)	2228.29	2177.32	-	2270.50	9225.22	9916.25

Currency: USD
Consensus as of Apr-16-2008 5:09 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2007	1.20	1.42	▲1 18.33 %
FQ2 2007	1.26	1.37	▲2 8.73 %
FQ3 2007	1.28	1.63	▲3 26.36 %
FQ4 2007	1.29	1.29	●4 0.00 %

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EXECUTIVES

Christopher J. Pagano

Donald Hamm

Gene Mergelmeyer

John S. Roberts

Melissa Kivett

Michael J. Peninger

Robert B. Pollock

S. Craig Lemasters

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Keith Walsh
Smith Barney Citigroup

Mark Hughes
SunTrust Robinson Humphrey

Steven D. Schwartz
Raymond James & Associates

Thomas Cholnoky
Goldman Sachs

Vinay Misquith
Credit Suisse

Presentation

Operator

Welcome to the Assurant First Quarter 2008 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. [Operator Instructions].

I would now like to turn the call over to Ms. Melissa Kivett, Senior Vice President, Investor Relations. Please go ahead, Ms. Kivett.

Melissa Kivett

Thanks, Marietta. Welcome to Assurant's 2008 First Quarter Earnings Conference Call. Joining me with prepared remarks are Rob Pollock, President and Chief Executive Officer of Assurant; Mike Peninger, our Interim Chief Financial Officer; and John Roberts, Interim President and Chief Executive Officer of Assurant Employee Benefits. I'm also pleased to be joined by the other members of our senior leadership team, who will be available for questions you have. Don Hamm, President and CEO of Assurant Health; Gene Mergelmeyer, President and CEO of Assurant Specialty Property; Craig Lemasters, President and CEO of Assurant Solutions; and Chris Pagano, our Chief Investment Officer and Treasurer.

Prepared remarks will last approximately 25 minutes, after which time we'll open the call to questions. This morning, we issued a press release announcing our first quarter 2008 financial results. The press release as well as corresponding supplementary financial information maybe found on our website at assurant.com.

Some of the statements we make during this call may contain forward-looking information. Our actual results may... might differ materially from those projected in these forward-looking statements. We advise you to read the discussions of risks and uncertainties associated with our business and results of operations contained in our SEC filings, which can be accessed from our website.

Additionally, the presentation will contain non-GAAP financial measures, which we believe are meaningful in evaluating the company's performance. For more detailed disclosures of these non-GAAP measures to most comparable GAAP measures and a reconciliation of the two, please refer to this morning's earnings press release and the supplementary financial information posted on our website.

And now, I would like to turn things over to Rob.

Robert B. Pollock

Thank you, Melissa. Good morning, everyone and thank you for joining us today. We are pleased to share with you Assurant's financial results for the first quarter of 2008. I am pleased to report that Assurant has delivered the best quarterly net operating income and operating earnings per share in our history, despite the slowing economy and the uncertainties impacting the capital markets. We have maintained a conservative investment philosophy. Our businesses continue to deliver healthy cash flows and we've maintained a strong balance sheet. We reported growth in net income, but our result show we are not immune to the volatile capital markets.

First quarter results include $28.2 million in after tax capital losses, related to other than temporary impairments in our investment portfolio. At the same time, capital market dislocations have created opportunities. Widening credit spreads have largely offset declining treasury yields, allowing us to invest on more favorable terms. Our capital management strategy is focused first on growing our businesses organically and second through acquisition. In 2007, the M&A environment was characterized by excess liquidity and abundant low cost financing. Nevertheless, we successfully completed acquisitions of about $200 million aligned with our targeted growth strategy. Today, the M&A environment is characterized by diminished capital positions and scarce higher cost financing. We believe we are well positioned for this environment.

Overall growth in our business has been driven by our disciplined execution of our diversified Specialty insurance model. Our results delivered strong operating ROEs and we achieved nice growth in operating earning per share and book value. We are pleased with our ability to deliver strong results in a slowing economy and we feel we are well positioned for 2008. The mortgage market has experienced unprecedented changes, which have had ripple effects across the entire economy. The market is dynamic, and Assurant continues to support initiatives that might bring additional stability. Examples include our membership in the financial services round table and our participation in their housing policy council.

We are also participants in the Hope Now program, focused on financial counseling for homeowners in need. In this turbulent market, Assurant Specialty Property delivered strong profitability and growth in net earned premiums. Our strategy of aligning with market leaders has been integral to our growth over the last five years, and we believe it positions us well for the future, where consolidation is likely to continue. Our results in the first quarter were achieved despite the loss at year-end of 630,000 subprime loans due the consolidation. Over the long term, we continue to focus on growing our share of trackable mortgage loans.

Let me move next to solutions. Net earned premiums grew nicely quarter-over-quarter. We recently held a workshop to provide investors a deep dive into our solutions business model. At the workshop, we identified key drivers of growth and how they would help us to tamper the impact of the slowing economy, particularly for service contracts. These drivers include establishing relationships with new distribution partners, such as dealerships in recreational vehicles, developing new earnable good product mixes like jewelry, adding new clients and increasing sales from existing clients. Solutions results this quarter were positively impacted by $11.7 million of after tax income from service contract clients. I mentioned this because it demonstrates our ability to work closely with our partners to improve client account performance, when results are not meeting our targets.

Internationally, we continue to see strong growth in both service contracts and credit insurance. One contributor has been our global client management strategy. Using this program, we've been able to add multinational clients in several countries. In addition, our two acquisitions in the U.K. have helped us to build our position in the niche mortgage payment protection market. The dynamics of the healthcare marketplace continue to change rapidly and we remain focused on executing our core capabilities. Our disciplined risk management approach to the specialty business has enabled us to continue to deliver favorable combined ratios.

Although Assurant Health's net operating income and net earned premiums for the quarter are both down compared to the same period last year, we continue to focus on growing our individual medical business by leveraging our strengths and product development and broad distribution. Assurant Employee Benefits is well positioned for the small employer benefits market. John Roberts, who leads our employee benefits business, will talk about how we are successfully executing our strategy within this market.

So in summary, even in the context of a slowing economy, our results continue to demonstrate the enduring quality of our diversified specialty insurance strategy. Our financial foundation is strong and our capital position provides the flexibility to capitalize on emerging opportunities.

Now, I would like to turn the call over to John Roberts. John?

John S. Roberts

Thanks, Rob and good morning everybody. I am very pleased to be here to update you on our quarterly results and the progress we made toward our goal of being a small employer's carrier of choice, when it comes to employee benefits. At Assurant Employee Benefits, we've chosen to become a specialty carrier in this market and to transform itself to focus on the needs of the small employer. We are executing on our growth strategy by building a sales force for the small market and developing alternate distribution networks like Disability RMS. Now moving forward, our growth strategy will expand to include increasing voluntary sales and acquiring blocks of business.

Now let me turn to the results for the first quarter.

Assurant Employee Benefits net operating income was $16.3 million, down 44% from the first quarter of 2007. This was primarily due to no investment income from real estate joint venture partnerships in the first quarter of 2008 compared to $9.2 million after tax during the first quarter of 2007. That said, the underlying business results continue to reflect the benefits of our new strategy.

Group disability experience continues to be very favorable. Our life and dental experience were not as favorable as last year. The net effect was continued overall improvement in our loss ratio. Our targeted small case market has distinct advantages. Historically, small employers appreciate and are more willing to pay for benefit choices.

Additionally, in the disability business small cases have on average lower claim costs for person covered. Small cases also less prone to fluctuation and claim incidence during these top economic cycles. As we continue to focus on growing, we expect the lower loss experience associated with the small case will be partially offset by higher sales expenses until we build scale.

Turning to top line, first quarter net earned premiums decreased 5% to $280.4 million. The decrease is due to $22.8 million in single premiums from closed blocks of business recognized during the first quarter of 2007, compared to only $5.5 million in the first quarter of 2008. Absent the effect of these single premiums, net earned premiums during the first quarter of 2008 decreased slightly.

We are encouraged by our sales momentum as we look at 2008 and beyond. Our overall sales for the first quarter 2008 were flat relative to the first quarter of 2007. Sales in our under 500 life target market have increased. Sales were up 57% over the first quarter of 2006, when we were in the early stages of implementing our small case strategy. Distribution of the key ingredient to successfully implementing our strategy and one that we believe differentiates us from our peers.

Our sales force is now 164 members strong, serving markets through over 30 group sales offices located strategically across the country. When we adopted our small case strategy, we implemented a sales compensation plan that focused on driving small group sales. Sales rep compensation is capped is 500 life, sending a clear message that small cases are focused.

This whole move set in place a redesign our sales organization. Our new sales force is primarily like experienced hires in their sales experience from other industry. We build upon their strengths and tailored training programs with them to maximize their sales effectiveness in the employee benefit market.
We believe the challenge and opportunity our reps find in working with small case is reflected in our lower turnover rate, which in 2007 was approximately one half what we saw in 2006. Additionally, we're continuing to strengthen relationship with brokers who share our focus on the small employer, especially through initiatives like the program we have developed for our key brokers.

The number of brokers involved in this program has now grown to nearly 250 because they recognize the value of our business tools such as cross-selling opportunities, our marketing and business planning development. All of which helps them grow their business, and collectively these key brokers account for 25% of our annual sales.

Business written to approximately 30 Disability RMS clients provides another avenue to distribute our products and services in small case market. When you combine the AEB sales force without the Disability RMS, nearly 500 sales reps are from disability products which Assurant holds in risk.

The next chapter for insurance employee benefits is growth, and in these tough economic times, there are a number of factors including the breadth of our product portfolio that make us attractive to the small employer. Our growth will focus on four key areas. First, even better executing our small case strategy. Second, growing alternate distribution; third, growing voluntary sales and fourth, acquiring blocks of business.

These past few years have been an important transition for Employee Benefits from a traditional employee benefit career to one focus as a specialty provider. We're demonstrating Assurant's core strength, partnering with industry leaders, expertise in risk management capability and our advanced administrative system that allow for mass customization in this market. These strengths and our focus on the small group market puts us in a position to deliver top line growth and targeted ROE for Assurant.

Now I would like to turn the call over to Mike.

Michael J. Peninger

Thanks, John. It's exciting to see how you and you team have advanced AEB's strategy and position the company for leadership in the small employer market.

Now let's review the consolidated results and the results from each of the other businesses, which in aggregate demonstrate strong performance and position us well for 2008. Assurant's net operating income during the first quarter of 2008 was up 22% to $214.9 million, or $1.80 per diluted share, led by the continued strong performance of Assurant Specialty Property. Net earned premiums increased 10% for the quarter. Key contributors were Assurant Specialty Properties creditor placed homeowners business and Assurant Solutions service contracts and pre-need businesses.

International net earned premiums reported benefited from favorable foreign exchange rates. While yields have declined, total invested assets have increased by nearly... by 6% or nearly $1 billion since the first quarter of 2007. Net investment income decreased 9% during the quarter to $197.8 million. This is due mainly to $33.5 million of investment income from real estate joint venture partnerships recognized during the first quarter of 2007. The current real estate market provides more opportunities for investments and as we move forward, our strong cash position should allow us to take advantage of this opportunity.

Net income in the first quarter of 2008 increased 4% to $186.8 million, or $1.57 per diluted share. We recorded $28.2 million in after tax realized losses, due to others and temporary impairments in our investment portfolio. These included an additional $2.5 million after tax out of our $40 million aggregate subprime ABS holdings of 2006 vintage.

The remaining impairments are primarily concentrated in issuers within the finance sector who are affected by the market volatility and credit market conditions at the end of first quarter. We've seen no significant further deterioration of these positions and many of our impaired holdings are approved along with overall market sentiment since quarter end.

Assurant Solutions first quarter net operating income of $47.6 million was up 8% versus the first quarter of 2007, there was no investment income from real estate joint venture partnerships in the first quarter of 2008, compared with $9.4 million after tax during the first quarter of 2007.

The 2008 results included $11.7 million of after tax income from the accrual of contractual receivables established from certain domestic service contract clients. As we discussed at our workshop in our past earnings call, we continually work with our clients to analyze emerging experience and make necessary adjustments. For example, we may change rate, change administrative practices or adjust client commissions. In this case, certain clients who have not previously met the minimum performance threshold specified in our contracts have agreed to explicit reductions in their future commissions.

We set up a receivable to reflect amounts we will receive over the next two quarters. Accounting rules require us to recognize them in our financial statements this quarter, since they can now be reasonably estimated and the likelihood of recovery is high. While these receivable improves our domestic combined ratios for the quarter, we continue to experience less favorable overall results in our domestic service contracts and we will work to continue to improve results. Our international combined ratios continue to reflect our investments in developing countries and continuing improvement in loss experiences in certain countries.

First quarter expenses for developing countries were $ 7.9 million compared with $6.7 million in the first quarter of 2007. Expenses in developing countries were 41% of gross written premiums in the quarter, down 14 points from the first quarter of 2007. Solutions net earned premiums were up 17% to $683.5 million in the first quarter of 2008. This increase was driven by the continued growth in our domestic and international service contractors. Excluding the impact of foreign currency exchange, net earned premiums are up 15%. We continue to see growth in pre-need premiums from SCIs acquisition of Alderwoods, which added $17 million net earned premiums during the quarter.

Overall, domestic gross written premiums were down 12% over the prior year, due to slowdowns in the retail sales environment and the closure of all CompUSA stores gross. Gross written premiums for our domestic service contracts were down 13% in the quarter. In addition, domestic credit gross written premiums continue to decline and were down 6% quarter-over-quarter.

International gross written premiums were up nearly up 18% in the first quarter. Excluding the impact of foreign currency exchange rates, they were up 6% primarily due to continued strong growth in service contracts, particularly from Canada, Brazil and Argentina. We are also seeing growth in our international credit business. Since international is an increasing part of our Solutions business, we will be including more information on foreign exchange impact in our financial supplement beginning in the second quarter.

Fee income was up 16% for the quarter, partially due to the growth in fee income from our two 2007 acquisitions; Swansure and Centrepoint in the UK. Assurant Solutions net investment income decreased 5% for the quarter. The decrease is primarily due to $14.4 million of investment income from real estate joint venture partnerships recognized during the first quarter of 2007. Absent this income, net investment income would have increased 9% due to higher invested assets from the growth in domestic service contracts, our international business and the Mayflower transaction.

Assurant Specialty Property delivered record net earned premiums and strong profitability. With no reportable catastrophes during the quarter and continued growth in creditor placed homeowners insurance, excellent combined ratios and an increase in investment income, net operating income was up 68% to $124.7 million. These results include $4.6 million after tax from a client-related settlement.

Net earned premiums driven by the continued organic growth in the creditor placed business increased 31% to $481.4 million in the first quarter. While the sequential growth has slowed this quarter due in part to seasonality and the loss of 630,000 subprime loans to consolidation, we continue to see our primary growth drivers increasing and we believe we are well positioned over the long term.

Average insured value for property rose to $164,000 in the first quarter of 2008 compared to $139,000 in the first quarter of 2007 and $157,000 in the fourth quarter of 2007. Average insured values are increasing primarily as a result of increases in replacement cost covered to be in a place in the primary homeowners' insurance markets and due to the geographic mix of business. Policy enforced penetration percentages have also increased in both our prime and subprime portfolios and continue to run in the general range of 6% to 15% for subprime accounts and 1% to 2% for our prime accounts. While the majority of our creditor placed premiums are non-real estate owned, real estate owned premiums continue to increase to 21% of written premiums for the first quarter of 2008. The growth in real estate owned properties has improved and broadened our geographic spread of risks.

Specialty Properties results also reflect a 34% increase in investment income, to $29.4 million for the quarter due to higher invested assets and an 8% increase in fee income to $13.6 million during the quarter.

Assurant Health maintained a very favorable combined ratio during the period of intense competition. First quarter 2008 net operating income was $37.3 million, down 8% compared to the same period of 2007. The decline reflected $2.3 million of after tax income from real estate joint venture partnerships recognized during the first quarter of 2007. Continued growth in individual net earned premiums during the quarter was offset by the continued decline in small group medical premiums. Our combined ratio for the first quarter of 2008 was 91.7%, same as it was in the first quarter of 2007, very favorable by industry standards and indicative of our disciplined risk management.

Net earned premiums in the first quarter of 2008 decreased 3% compared to the first quarter of 2007, $496.1 million. Individual medical net earned premiums grew by 2%, primarily due to higher premiums per member. This was offset however by a 13% decline in small group franchise. Individual medical sales were down 20% compared to the prior year, however we believe recent turmoil in the market will work to our benefit and allow us to take advantage for our strengths. These strengths include disciplined risk management, broad distribution and a comprehensive product portfolio.

Next in our corporate and other results, we reported a net operating loss of $5.9 million for the first quarter of 2008 compared to a loss of $7.6 million in the first quarter of 2007. This improvement was primarily a result of $5.8 million of changes in certain tax liabilities recognized in the first quarter of 2007, partially offset by lower investment income in the quarter. The quarter includes $1.6 million after tax of expenses relating to the ongoing SEC investigation of loss mitigation products.

Our balance sheet remains strong. As of March 31, 2008 total assets were $26.4 billion and total shareholders equity excluding accumulated and other comprehensive income was $402 billion. Book value per diluted share excluding AOCI grew 5% during the quarter to $33.73. Our adjusted capital ratio excluding AOCI improved to 18.9%.

In summary, Assurant's focus on the disciplined execution of our improved and diverse specialty business strategy continues to deliver strong results for shareholders, by leveraging our core capabilities and expertise in the specialized markets in which operate, we continue to make steady progress in our key targeted growth areas.

Now I'd like to turn things back to Rob to open the floor for questions.

Robert B. Pollock

Thanks, Mike. Operator, we're ready for questions.
Question And Answer

Question and Answer

Operator

[Operator Instructions]. Our first question comes from Kevin Walsh of Citi.

Robert B. Pollock

Good morning, Kevin.

Keith Walsh
Smith Barney Citigroup

Good morning, how are you? First question for Gene, couple of questions on Specialty Property, if you could just remind us why we see seasonality in the gross written premiums from fourth quarter to first, why they declined? And then secondly, just more broadly, when we think about originations in the mortgage industry, they're down pretty sharply across the board, but much more so for Countrywide. Now are you seeing relative migration to your book away from Balboa or let's say, may be if you can talk a little bit to that and than I've got a follow up for Mike.

Gene Mergelmeyer

Okay, great. Yes, let me try and address seasonality. I think one of the things you can look at to is if you look at there is a similar pattern that occurred in the fourth quarter of '06 versus the first quarter of '07, and really what that relates to, if you look at our book a number of the expirations let's say, do kind of expire in the middle of the year, kind of consistent with when most people were buying their homes and that's when their insurance was kind of set up and the expirations occur. So there is a tendency to run to that and there is some little cyclicality around how premiums are processed as well.

As it relates to the origination side of the business, we do feel that again, our core competency around aligning ourselves with the industry leaders has us well positioned. Certainly, I mean there was a couple of our large lenders that in the first quarter actually did announce that despite all of the problems and all of the press around originations being down that their originations were up and some significantly over the first quarter of last year in this first quarter. So we do see some of that happening, we also do believe that as the Banc of America Group takes over for a Countrywide, to the extent that does go through, they have already announced that they do plan on cutting back of their warehouse lending as well as their subprime lending and so we do believe kind of our partners are in a good position to probably take advantage of that market.

Keith Walsh
Smith Barney Citigroup

Great. And then just for Mike, if you could remind us of a what's your excess capital position today?

Michael J. Peninger

We usually update that later in the year, Keith. We were in I think the 220 or so range at year end and we'll give you an update of that as the year progresses.

Keith Walsh
Smith Barney Citigroup

Okay, thank you.

Operator

Our next question comes from Mark Hughes of SunTrust.

Mark Hughes
SunTrust Robinson Humphrey

Thank you very much. Anything you can say in terms of how much the loss of those 630 subprime loans affected premium in the quarter, can you ballpark that?

Michael J. Peninger

Well, that's really not some thing I can disclose. However, what I can say is we do see continued growth momentum. So when you look at our average insured value, we reported that, I think you'll see that has continued to increase consistently with what we've seen in the previous year. But also as delinquencies and foreclosures have continued to increase, we've seen increased penetrations and so both in the subprime market and a little bit in the prime market as well, we have seen increases again this quarter consistent for what we were incurring last year.

Mark Hughes
SunTrust Robinson Humphrey

Got you. And then any improvement in the pricing environment in the Health, given the poor performance of some of your competitors?

Robert B. Pollock

Donald, you want to --?

Donald Hamm

Sure. Health remains a very potentially competitive marketplace particularly in the individual market where we saw lot of growth and more competition, and I am actually quite encouraged by our sales in the first quarter being up 18% over the previous quarter. I think a number of factors were involved. I do believe our relative hedge position had improved a bit. And additionally, we introduced a new product and we introduced new capability, and I'll be talking more about those as part of our second quarter. But, certainly this reinforces our long-term perspective on the business, our discipline in risk management. We stay on top of the business every month and we make sure that we price our products appropriately for the risk we are taking. And the recent changes and turmoil I think may give us some limited sales as we look towards the second quarter and the rest of the year.

Robert B. Pollock

And I think it just points out the major of individual medical being the specialty business and I know that people talk all the time about competitors coming in, but it is different and it operates with a different dynamic than you see in the general large case health marketplace.

Mark Hughes
SunTrust Robinson Humphrey

Thank you.

Operator

Our next question comes from Ed Spehar of Merrill Lynch.

Robert B. Pollock

Good morning, Ed.

Edward A. Spehar
Merrill Lynch

Thank you, good morning. I had a couple of questions. First, on Specialty Property. The... I think you said the average insured value was up from $139,000 to $164,000 year-over-year, is that correct?

Robert B. Pollock

Yes.

Edward A. Spehar
Merrill Lynch

And so that's an... I guess it's an 18% increase and I am wondering at what point do we start to see those increases stop. I know that there isn't a direct connection between insured values and home prices. But is this something where we can... we have some way to sort of gauge when we would think this would normalize and does it normalize in terms of sort of gradual decline or is it something that I guess I would think maybe something that could drop significantly in a quarter when it stops. But can you help us understand that, that's obviously is a key driver of the growth?

Gene Mergelmeyer

Sure, sure Ed. Let me try and do my best to address that issue. First of all, we continue to see increases in the average insured and it's being driven as we look at the new policies that are being put on the books. They are at much higher values and we're continuing to see that increase. So again, we are replacing some of the older policies that have been on the books for quite a long time, and we have also instituted some processes in our policies that are going to increase our renewal amounts based on inflation as well, which will continue to add to that trend.

Secondly, the other thing we are seeing is that it is being driven a bit by geography. And so, as we have added particularly in the real estate owned area, there have been an increase in polices in the west, particularly in California which are having some higher values and we believe that trend is going to continue.

Edward A. Spehar
Merrill Lynch

Okay. And I guess the... the other questions, just some clarifications. Could you give us in Solutions what Mike did you say the expenses for developing countries were this quarter versus 1Q '07?

Michael J. Peninger

7.9 I think was the number and let me try to find it for you.

S. Craig Lemasters

Ed, it's Craig. Yes, I think it was 7.9 but we also gave you as a percentage of gross rate premium, which was 41% and that was down 14% of part four, so we only not just give the absolute number but we talked a little bit at the workshop about as it being still scaled and that percent should drop, so we started reporting both this quarter. And the spent is pretty much in line with what we talked about at the workshop and I think we are about $8.9 million in the fourth quarter. So overall, I am really comfortable with coming in on plans for as far as the spend and making good progress.

Michael J. Peninger

6.7 in the first quarter of '07 Ed.

Edward A. Spehar
Merrill Lynch

Okay and then what did you say the growth in international written premium was ex-currency?

S. Craig Lemasters

The gross written was up 6% was that out of the currency.

Robert B. Pollock

The gross written, but the earned was up substantially more than that.

S. Craig Lemasters

Earned was up 15x the foreign exchange.

Edward A. Spehar
Merrill Lynch

Okay and that's what I thought you said I mean is that a material slowdown from where we have been running at an ex-currency basis?

Robert B. Pollock

I mean I think a way to think about all these things Ed is especially with the service contracts, you write the business and then it earns out after the manufacturer's warranty expires. So you can see things go up or down in a particular quarter from the economy et cetera, but we feel quite good about our positioning internationally as we're adding more clients.

Michael J. Peninger

Yeah I'll just add to that Ed that I'm still very comfortable with our growth trajectory in international. One of the things that's interesting if you look at the U.S. economy and obviously since you make that one on here. Obviously two of our bigger locations internationally are Canada and the U.K., which tend to more closely mirror the U.S. so our longer term vision as I talked about is, as we built scale in other markets around the world it'll insulate us a lot more to any of the downturns in any particular regions. So, and a good example of that would be Latin America. I would love to have more scale already in countries like Mexico and Brazil and we're working real hard to do that because those economies are for the things we care about consumer spending, consumer borrowings are growing pretty nicely. So we are working real hard to build the scale in those other regions, but I'm still very comfortable with where we are in terms of the growth.

Edward A. Spehar
Merrill Lynch

Thank you.

Operator

Our next question comes from Steven Schwartz of Raymond James Associates.

Steven D. Schwartz
Raymond James & Associates

Hi, good morning everybody. I've got a few here. First, Mike, could you talk more about... it's along the receivables that I don't know you reverse them or whatever you did with them, in Solutions. Where are those and what line items might they have affected?

Michael J. Peninger

Yes. We set up a receivable for payments to get over the next six months, Steven as far as I think as can give a kind of more of the business context but really this is a normal part of the business. And Craig, do you want to may be add?

S. Craig Lemasters

Yes absolutely. Steven, what this is, I think is a great example of the risk management process we employed here and I talked about for several quarters. And again as I've discussed, there are several ways we can improve client performance, we can change rates, we need to change terms and condition for contract, we help clients get higher attachments rate and then ultimately we typically would have some type of contractual ability to do we've done here, which is to change prospective commissions so that's really worth the $11.7 million receivable recorded in this quarter where we're recognizing six months of agreed upon reduction in commission by some of our clients. And again, we are required by accounting rules to put that up in this quarter, as a receivable again reduction of future commission. So, yeah, I think the bottom line for me here is it's a great example of when we need to do these things, we have excellent relationships with our clients, and our clients generally get it that these programs need to be sustainable and viable long-term and work very closely with us on really all of these ways to improve performance, but that's what the 11.7 represents this quarter.

Robert B. Pollock

I think Steven, it's a perfect example of our dual vision we have operating here. In the short term, we have people with our core capabilities Craig mentioned, focusing on the details of the business where at the same time we have our vision on the long-term horizon of how can we do more with these clients, how can we bring in additional clients, how can we identify more vulnerable good niches and I think, Craig and his team have demonstrated that they can operate with that dual vision.

Steven D. Schwartz
Raymond James & Associates

No, I understand that, I understand the risk management, what I'm trying to get to is the mechanics of this? Are these commissions that were already paid, they haven't been amortized into expense yet that you're going to be getting back? Are they... they are not paying yet, but you've already accrued for them and now you're unaccruing for them, things like that.

S. Craig Lemasters

We have an agreement with these clients that we'll receive a stream of payments over the next six months and so because the stream of payments is definite and we can estimate it, we've set up the receivable now. So, we'll get the money in over the next six months.

Steven D. Schwartz
Raymond James & Associates

Okay. But this does not reflect commissions that were retrospective commission basis that you --?

S. Craig Lemasters

No.

Steven D. Schwartz
Raymond James & Associates

All right. That's where I was going. To fill our Keith's discussion of mortgage originations in Ed's discussion, it seems to me that mortgage originations have kind of a conflicting effect if you will, tell me if this is right. Your more originations mean there is going to be more new assurance which means that the TIV is going to go up on what you're all tracking. On the other hand, it would seem to me that, more originations particularly resize might take people out of situations where you would be insuring them?

S. Craig Lemasters

Yes, before I turn it over to Gene, just a comment. Long-term, if we look at this over the long-term, Steven, we think the social policy in this country is going to continue to be focused on homeownership and so our eye is on the number of trackable loans, the number of mortgages outstanding and how we get our fair share, okay. So right now, that number we've identified for you is about $45 million trackable loans. We think that number will grow historically over time. With that as context, I will let Gene make a few comments.

Gene Mergelmeyer

Yes, and we also believe that it is important that confidence be regained in the mortgage process and we certainly believe that it is going to happen and there going to be changes in business practices, we have already seen that in the underwriting side and that underwriting side though has limited significantly the number of new originations and we think it's going to take some time before those come back and I don't think at this point we are too concerned if that's going to have a significant effect certainly in the short term around our continuing growth factors.

Steven D. Schwartz
Raymond James & Associates

Okay. And then just a quick one for Don. Just to fill in the topic of health turmoil and I am actually a little bit surprised I mean I thought more people were getting into your business, your sales were up, you say that they benefited from health turmoil which as an insurance analyst would mean to me that people are leaving because of poor profitability. So what exactly do you mean by health turmoil here?

Robert B. Pollock

I just think that and I will turn this over to Don, but I will make these comments Steven. We have... our approach has been to focus on the specialty business, we have seen a number of players who are in a variety of markets in healthcare, okay, have seniors, all that. They see the individual market is interesting and they enter.

Steven D. Schwartz
Raymond James & Associates

Right.

Robert B. Pollock

They enter with the skills they have applied in the large case market, those do not work often by themselves and so as the consequence, I think that I would define they have had a denominator problem versus a numerator issue. In other words, they haven't been charging enough premium and I think what Don's folks have seen is they are now making premium adjustments, which make us relatively more competitive.

Donald Hamm

That's exactly right, Rob. In the first quarter, several of the large national players announced some disappointment and referred to plenty of difficulty in the risk-based businesses and so therefore, we have seen some recent changes in the rates and it reinforces insurance longer term perspective on the business. But we have this intense monitoring cycle that occurs monthly and we stay in top of the emerging business.

Steven D. Schwartz
Raymond James & Associates

Okay great. Thanks, guys.

Operator

Our next question comes from Adam Klauber of Fox-Pitt.

Robert B. Pollock

Good morning Adam.

Adam Klauber
Fox-Pitt Cochran Caronia Walle

Good morning, Rob. Thank you. On the Specialty Property the expense ratio seems like it's settled in around 39%. As volumes continue to increase, is there potential improvement there or are we at four, right now?

Gene Mergelmeyer

Well again. As I have kind of mentioned in previous quarters we do believe that this is a scale business and we do believe that as we continue to ramp our premiums we will continue to achieve the benefits of scale and certainly believe that there is a possibility that we could continue having good expense ratios and potentially improvement.

Adam Klauber
Fox-Pitt Cochran Caronia Walle

Okay, thank you. On the Solutions business, the premiums earned have rolled through as you explained last year and at the workshop so that's, that good to see. Now that we're seeing a reversal in gross premium, which again is somewhat expected, as we all get 2009 with the lag inherent in the contracts business, even if the gross pay is moderately negative this year, will the earn still be relatively positive next year?

Robert B. Pollock

Yes, Craig go ahead.

S. Craig Lemasters

Yes, it should be Adam. I mean, remember, we talked about particularly on the service contract that this tend to be up to three to four year contracts, so we have a nice bucket of earn on that despite some downturn in the gross written premium, you'll still see nice earnings follow through on the net earn side. And obviously, our mission here is to really focus on that top line, as we talked about particularly in service contract business, it really are four key growth drivers, Rob mentioned it earlier and we want to keep growing our existing clients and we've seen some of that we actually had some of our clients in the first quarter domestic service contract clients that grew in the first quarter largely because of our strategic program management helping them at the point of sales.

If I look at our top line, Mike mentioned, CompUSA that obviously had impact year-over-year on our top line, everyone is aware of Circuit City's downturn, so when I normalize those, we actually had some of the lights spots for the quarter in terms of top line. And we want to get new clients to penetrate the market deeper, keep adding new products in the working space and then we are excited about new distribution channels, we talked about jewelry, we are looking at furniture business now, OEMs, so lot of interesting niches that we're keep pushing out at the top line. And then finally, the international piece, again, we still see great growth opportunities around the various international regions and as I mentioned earlier, we're particularly excited about some of the Latin American countries right now. Specifically, Mexico and Brazil and so roll that out while we certainly have pressures from the economy here and as I mentioned, Canada and U.K. tend to mirror us a little bit. I am still pleased of our progress in this overall growth. Again, our goal is to build a real stable long-term growth platform.

Robert B. Pollock

Yes.And I think Craig says its very well, and one of the ways you can just look at the numbers is to relate the gross written to the earned for service contracts in particular where written and earned tend to mirror over time and our written is, substantially ahead of our earned in the service contract business.

Adam Klauber
Fox-Pitt Cochran Caronia Walle

Right, okay. And finally, I know you prefer to do acquisitions, if the right ones come along, if they don't, at what point are you going to turn around and start doing share buybacks again?

Robert B. Pollock

Sure, while I mean as we've said, we're on advice from counsel, we've concluded until the investigation is finished with the SEC, we're not doing buy back. We are not exercised by that at all though today because we see plenty of acquisition opportunities and we think our shareholders would prefer that we acquire businesses where we can grow earnings at attractive returns for them and so our M&A area is probably busier than it's been in sometime and we hope that we're able to make things work on that side of things.

Adam Klauber
Fox-Pitt Cochran Caronia Walle

Great. Thank you very much.

Operator

Our next question comes from Beth Malone with KeyBanc.

Robert B. Pollock

Good morning, Beth.

Beth Malone
Keybanc Capital Markets

Good morning and congratulations on the quarter

Robert B. Pollock

Thank you.

Beth Malone
Keybanc Capital Markets

Just a couple of things. On the real estate partnership that you had last year, but not this year, is that part of the market conditions in the real estate or is that just a timing issue?

Robert B. Pollock

Let me have Chris comment on that little bit, because he is best positioned to talk about that Beth.

Christopher J. Pagano

Hi, Beth. A couple of things. When we think about the real estate specialty asset class, there are other two things that we are trying to accomplish right now the first is to grow the portfolio. And again, the objective here is to perhaps maybe as much as double the existing $150 million we've got in exposure, but the second thing is and then key to the profitability of this asset class for us over the long-term is our ability to be opportunistic, and when you think about the first half of 2007, the opportunities were clearly on the sell site.

We sold into what we saw is an aggressively bid market carrying back in particular a lot of our office exposure, we went through the second half, went through a period of what I would call price discovery and that sort of spilled over into the first quarter of '08 where sellers are looking for 2007 prices, and that's just not where the market is. But we feel now given the strong operating cash flow and the deals that we are seeing which are really better properties on better terms that we'll be able to take advantage of the opportunities on the buy side, further distribute the property and the exposure in the partnerships across the segments and down the road deliver, continue to deliver a well distributed investment income from sales.

Beth Malone
Keybanc Capital Markets

Okay, thank you. And then one last question on the Solutions division, can you talk a little bit about your effort to work with situations... as obviously economy slowing there is less demand for consumer products as forecast, and how are you managing that like in case of Circuit City where it's under some threats, how do you all manage that?

Robert B. Pollock

Craig, you want to talk about that?

S. Craig Lemasters

Absolutely, Beth. I mean there is a couple of ways, and specific to Circuit City, obviously again, it been... they are a great partner and we are working real hard I think. We believe that increasing service contract sales can be a big part of their rebuilding the company and they believe that. So we work very closely together to help. So we generally view that as an opportunity with these type of clientele right now. But again I go back to these four growth drivers where I don't want to just ebb and flow with the economy and we work very hard at again penetrating our existing clients even farther, which is working, we have clients that are up there in the first quarter, which is encouraging.

There is lot of share out there that we don't have particularly, in some of the niches. We talked about our new wireless close with Cricket Wireless at the workshop. We're doing some new testing with people like Wal-Mart and in some markets Canada, Argentina et cetera again, we are excited about new distribution we are making headway in the jewelry space, furniture, RV, power sports, OEM, so really pushing hard at all of these and again not just waiting on the economy and I think Rob talked about dual vision earlier, I talked to our group, we came to call it telescoping in that we try to focus in real hard in times like this on the profitability and making sure that we are most constantly improving client profitability then sort of pulling the telescope back and looking at the horizon out there for these other opportunities, niches and ways to grow the business.

Beth Malone
Keybanc Capital Markets

Okay, thank you.

Operator

Our next question comes from Jukka Lipponen of KPW.

Robert B. Pollock

Good morning, Jukka.

Jukka Lipponen
Keefe, Bruyette & Woods, Inc.

Good morning, Rob. Back to the Solutions and the growth outlook, can you discuss your expectations now for the domestic service contract business in terms of the gross premium trend and I think in the past you felt like in prior recessions your business necessarily didn't decline. Now we saw some of the premium sale on a gross basis down in this quarter. So can you give us color on that and then also as a part of that, there's been a weaker economy improve or hinder your opportunities in winning new domestic service contract clients?

Robert B. Pollock

Craig you want to comment on that?

S. Craig Lemasters

Yes, absolutely. You get the... the two big impacts again on our top line to gross written domestic service contracts are really CompUSA and the slow down in Circuit. As I've just mentioned, Circuit, we are encouraged by, they are great partners, we are working real hard to help them improve results, obviously that's good for both of us. Comp is nothing I can do about, I mean it's 130 stores, it was a big producer, obviously, they have closed those stores, so that will be a drain on as this year. It's hard to make up for that level of volume. But again, I think what's important for us is to peel back that onions, okay, what's happening beyond those two events that we've talked about publicly and again that's why I see encouragement. We had clients that were up this quarter, which is encouraging. Joe talked a little bit, at the workshop about... those parts of the services contract business that are still pretty healthy.

Flat panel TV been a great example where sales on those are still strong and it appears they will continue to be through out the year. So what we do in situation like that is to really push at those product items specifically and how can we help our clients improve results on stuff that is moving.

The other big factor for us is the wireless space. We're very interested in the wireless space; we're obviously in it now. I think gaining some momentum. The good news is we don't have much of that share so we're going to continue to pursue the wireless space more diligently.

On your second question, in terms of the economy and does that improve our position in terms of new clients, we really haven't seen that right now. And we have strong competitors domestically, so we haven't really seen a lot of opportunistic sort of things going on right now in terms of the economy. At the client level, I will tell you, I think one of the things that's interesting right now and we are sort of anticipating some help here with these tax rebates that are now getting in people's hands, we are hopeful that people buy more flat screens of those. We will see how that develops.

Robert B. Pollock

Yes, just one point to add because I think we've been very diligent at applying those core capabilities while Craig has had all this going on he has also taken that global client management capability and applied it internationally, which is going to help us. But he has also held something to leverage that across the enterprise. We just had a meeting with leaders that all of the different companies and how can we share these core capabilities, that's a good example. We have another one that Gene is kind of leading up on call centers, and we are getting people together on the call center side and seeing if we can improve our productivity there, that's something that can help in Craig's area. So we are always looking to tighten things down as much as we can, you could service our clients better during these times.

Jukka Lipponen
Keefe, Bruyette & Woods, Inc.

And Craig, can you give us about update on your efforts in China?

S. Craig Lemasters

Yes, it's actually been an exciting quarter for us. We have opened our service contract office in China and actually, I believe just two weeks ago, welcomed our new general manager to run our service contract company in China and we just got a terrific candidate with lots of great experience and its exciting for us and I mentioned this before what we see happening is our ability to attract talent now and our international expansion is really improving. It's hard when you start up and you are not a known brand and you're new to this expansion and now we've been at it for 6 or 7 years, we are starting to build some scale and some excitement around it. We are really able to attract some talent.

We are in active conversation in China with a number of the retailers. At this point, it's very early the game, so it's really hard to predict when those clients will start to come our way, but we are using the same template that, I think we've proven in other countries where we are going and on a very organized basis building our service network, putting our systems in and basically getting organized. So I look forward to update you in the coming quarters on the progress there.

Jukka Lipponen
Keefe, Bruyette & Woods, Inc.

And lastly, Rob, I think any updates you can give us on the SEC front.

Robert B. Pollock

Jukka, we continue to work toward resolution there. Obviously, what we can do is focus on the things we can control. I think we are being responsive there. The SEC we cannot control and obviously, they have lots of my items I am sure for considerations and we need to understand that in terms of the things that they on their docket.

Jukka Lipponen
Keefe, Bruyette & Woods, Inc.

Thank you.

Operator

Our next question comes from Vinay Misquith of Credit Suisse

Vinay Misquith

Credit Suisse

Hi, good morning. A few questions. First, on the number of loans tracked, could you just give me update on how many prime and subprime loan you track right now?

Gene Mergelmeyer

Sure, it remained relatively consistent with the previous quarter. We are up... we had about a 26.5 million prime loans and around 4.125 subprime loans.

Vinay Misquith
Credit Suisse

So that excludes the 630,000 going to last...

Gene Mergelmeyer

That is correct.

Vinay Misquith
Credit Suisse

And you do plan to get 170,000 new subprime loans on April 1.

Gene Mergelmeyer

That actually includes those 170 subprime loans as well.

Vinay Misquith
Credit Suisse

Sure. And that you got on April 1 versus Jan 1.

Gene Mergelmeyer

Yes, we actually have loaded them into our system as of now and we are starting to sent letter and start produce premiums.

Vinay Misquith
Credit Suisse

Okay great. And could you remind me as to whether you have agreements with the bank and the servicers for forced placement on the prime loans like you have on the subprime policy?

Gene Mergelmeyer

I'm not quite sure I understood that, are you talking about real estate owned or...

Vinay Misquith
Credit Suisse

Yes, yes because on your REO properties you have contracts with your servicers to force place them for a subprime, but I was wandering about on the prime side do you have similar contract?

Gene Mergelmeyer

Right. That really is some what of a mixed bag. I'm not going to say we don't have contracts because we actually do have contracts with some producers. Generally though, a lot of the sub prime loans maybe loans that are held actually by Fannie and Freddie who kind of have their own programs. Some of those that are still prime loans that could be securitized with other third parties, yes we might have their REOs, but in general most of the REO program that we have are related to our subprime producers.

Vinay Misquith
Credit Suisse

Fair enough. So if we see an uptick on the prime side, we shouldn't presume that you guys are going to benefit significantly from that, correct?

Gene Mergelmeyer

Well as we have seen, we have seen some increases in penetration. It is one of our growth drivers, even on the prime side, so as delinquencies and foreclosures rise we are getting some foreclosure activity, but even as delinquencies rise, we are getting some increases in penetration. Not likely to the extent that we have seen it though on the subprime side.

Vinay Misquith
Credit Suisse

Fair enough. And one last question. On the extended service warranty business, what's your combined ratio on the domestic side excluding the favorable prime settlement?

Robert B. Pollock

I believe the number is right around 100 million.

Gene Mergelmeyer

Can you repeat the question again?

Robert B. Pollock

Excluding the settlement.

Gene Mergelmeyer

Excluding the settlement was about 100.6.

Vinay Misquith
Credit Suisse

Sure. And your target is high 90s correct? So you're pretty close to your target and you still have maybe one or two contracts that are still underperforming but that should be back to normal pretty soon?

S. Craig Lemasters

Yes Vinay, this is Craig. That's right. We still I mean... I think about our risk management process on the service contract, it is a continual process and it's the nature of this business. I mean you have to be really good at this to hit your profitability target over time in this business and that's what we do. There will always be clients that are performing better than expected and some that worse than expected; it's our ability to identify those things. Work on them and quickly get plans in place to resolve it. Obviously, you saw a big example of that this quarter with the receivable we put up. But again, we are constantly looking at the raise at the terms and conditions not only improve administrative process, expenses, how can we help with penetration at the point of sale. All these factors really build into the ultimate profitability and so that is a continual process for us. And again, just a big part of our core competency is to continue to invest in the risk management component.

Vinay Misquith
Credit Suisse

Thank you.

Operator

Our next question comes from Tom Cholnoky of Goldman Sachs.

Robert B. Pollock

Good morning, Tom.

Thomas Cholnoky
Goldman Sachs

Good morning, everybody. Just a couple of small questions and I don't know if you've disclosed this in the past. But could you just give us some sense of how much CompUSA may have hurt you in the quarter? And what kind of comparisons are we going up against in terms of the business you have with them?

S. Craig Lemasters

Yes Tom, We don't disclose the client specific percent, but what I can tell you, they were a nice-sized client, I mean obviously with a 130 stores that is a meaningful piece of business and that's been a very good client for long time. Again, what I will tell you is that when I peel back the onion in the quarter, sort of normalized comp USA still being here and sort of where Circuit was and where we would hope they would be in the future as we continue to work with them, when I peel those two back, there's a lot of encouraging signs even on our top line. So, again, I don't want to discount the pressure of the economy out there and obviously retail sales have slowed, but I go back to those four drivers and our service contract team and our number we've got to meet some, some of Gordan and his team at our workshop, they are very energized around these four drivers and work very hard to make all of them work.

Thomas Cholnoky
Goldman Sachs

Let me try to ask maybe the question little bit differently then. As we go through the next couple of quarters, did your CompUSA business steadily declined in the latter half of '07 so that in fact it should be less of a headwind for you in terms of comparisons?

S. Craig Lemasters

It did decline in the latter half of the year but obviously when...

Thomas Cholnoky
Goldman Sachs

Well I know you got a foreclosing.

S. Craig Lemasters

Right, so it's out there certainly the rest of this year on --

Thomas Cholnoky
Goldman Sachs

Okay

S. Craig Lemasters

That's on a year-over-year basis.

Robert B. Pollock

I think the other thing Tom is again, just like with Gene's business, Craig is aligned with a lot of the industry leaders and what we hope is the people who are going to Comp stores go to one of our other client stores and purchase something.

Thomas Cholnoky
Goldman Sachs

I hope so too. The other question... two questions I have, Rob, in the past, I think you've mentioned in passing that Balboa might be an interest, is there any thing there, any update potentially?

S. Craig Lemasters

Yes, I mean... certainly that is a business we would be interested in, saying that, I think until, things between BOA and Countrywide close, I don't think there's going to be a focus by BOA on what they might do with that. Gene, you want to comment anything further?

Gene Mergelmeyer

Yes, I would just tend to agree with that. I think even in that case though, we still have to evaluate what we would have to pay for that business versus our ability to win the business and we'll continue to do that certainly.

Thomas Cholnoky
Goldman Sachs

Right. And then I guess finally, I know you're coming up to your cap program, any kind of initial senses from your brokers on what you might expect in terms of the renewal process?

Gene Mergelmeyer

Well yes, certainly I would love to comment on that. We're actually very excited about our re-insurance program this year and again kind of our disciplined execution around risk management and that's a big component of it. As I've mentioned, we did place about half of our program as of January 1, and we were very happy because we were able to not only fill out our top end, but we were able to keep the retentions at similar levels to what we had previously. Coming up June 1 now, we will be going out for the rest of our program, both on the per-occurrence as well as any sort of cat aggregate, we may get.

Again, protecting our core balance sheet but then opportunistically buying to the extent that we feel like we are getting good pricing for the risk transfer. Again, I think we are excited about that, we've had meetings with many of our current reinsurers as well as well as some further prospect reinsurers, we believe the cat capacity is available, and we believe that the pricing is going to be good flat to better, so I think we are excited about the reinsurance prospects, excited about our program and I think will be able to share that with you some time in June, consistent with what we've done with you in previous years.

Thomas Cholnoky
Goldman Sachs

Right. Just as reminder, where is your per-occurrence net right now?

Gene Mergelmeyer

Per-occurance net, it's been at $90 million.

Thomas Cholnoky
Goldman Sachs

$90 million, Okay great, thank you.

Operator

Our next question comes from John Hall with Wachovia.

Robert B. Pollock

Good morning, John.

John Hall
Wachovia Capital Markets

Good morning, Rob. Just real quick, I was wondering if there were any reserve releases to speak of in Specialty Property line of business and I have got a couple of follow ups.

Gene Mergelmeyer

No, there is nothing out of the ordinary, john.

John Hall
Wachovia Capital Markets

Great. There's been a few stories out there in the press mostly anecdotal about the condition of properties that are coming in or out of foreclosure. Are you seeing any thing out there to support what they are talking about in terms of appliances leaving and properties being treated or mistreated.

Robert B. Pollock

Sure.Go ahead, Gene.

Gene Mergelmeyer

Sure. This is a product that we have been writing for a number of years and again, I think our primary focus there is to again focus on the may be the combined ratios associated with that product. So we will run slightly higher loss ratios in that product line, but we have less expenses associated with it as well. And we have many triggers that we can pull. Some number of these policies are monthly policies, would gives us the opportunity to adjust rates. We also have numerous programs associated with deductibles and we can increase deductibles to the extent that we need to and lastly, we are actually not covering contents. So, some of those issues that you are hearing about, would not be our liability to begin with.

John Hall
Wachovia Capital Markets

So appliances with legs.

Robert B. Pollock

Yes, there are certain things. The copper pipes we cover so...

John Hall
Wachovia Capital Markets

Got you. And then just finally, you know the loss experience net business has been very good obviously there is some favorable catastrophe experience long as well. You addressed sort of a scale factor around the expense ratio, is there any scaling, positive scaling issues associated with the loss side of the equation?

Gene Mergelmeyer

Well I think when it comes down to losses, I think obviously we've very pleased with the results. Again, I think around our risk management capabilities and our strengths there, we focus a lot on the spread of risk and I think that has helped us particularly in light of even some of the weather events that we had here in the first quarter, so I think that's out.

John Hall
Wachovia Capital Markets

Great, thank you very much.

Robert B. Pollock

Thank you John.

Operator

Our final question comes from Dan Johnson of Citadel Investments.

Robert B. Pollock

Good morning Dan.

Dan Johnson

Citadel Investments

Good morning. Firstly, couple of remaining questions related to the economy. John already asked about the vacant house losses; let's look at two other please. How do you see the environment or should use higher unemployment scenario, impacting two areas. The first one is what have we seen historically with individual health sales? And then secondly, within Solutions, you have some products that are sensitive to unemployment trends. There is some level of concerns that has unemployment ticks up that you could see some definitely some increase losses from those products. Could you talk a little bit about how sensitive those products are to unemployment trends? Thank you very much.

Donald Hamm

Dan, I will start off, this is Don Hamm. Historically, there is been a slight positive impact on the individual medical business from increasing unemployment. That does tend to generate a few more people, starting their own business and moving companies and although it's not a significant driver, either seen to be a slight positive as the economy does get a bit worse. Because healthcare is one of those products that people are really focus on maintaining the coverage for.

S. Craig Lemasters

Hey Dan, it's Craig, let me talk a about the Solutions piece. I think what you're referring to is that we include in our bundled credit insurance debt product an unemployment coverage component and historically, that has not moved a lot with unemployment trends. It would have to be a very dramatic shift in that to really move the needle a lot on the loss ratio there, and really for a couple reasons. One, we tend to... the general trend has been to get a little bit higher penetration rates and people more aware of the economy, more concerned about losing their jobs, and then we tend to do a little better on the penetration rates. We also see balances going up on credit cards, which drives more premiums obviously through our systems. But then ultimately, these are pretty mature product lines as you know and most of this business is reinsurance, so we are really not on the risk on most this business any way.

Dan Johnson
Citadel Investments

Most of the reinsured back to the current issuer or there is some third party?

S. Craig Lemasters

They are typically to the financial institution, yes.

Robert B. Pollock

And Dan, obviously, our benefits business can be impacted by unemployment as well. John, you want to comment on that?

John S. Roberts

Sure, Rob. Historically, the disability business has had been impacted by changes in unemployment. And if you look back over the prior two recessionary periods, most of the impact, the change in claim incidents occurred in large cases, cases of over 1000 lives. And I believe that our focus on the small case business is going to insulate us a lot from that. The other thing that we paid a lot of attention to 2Q is not having much exposure in any particular SIC code or geographic area and our two largest exposures, and again they are small in the low teens, are in education and the healthcare area, both of which should not be impacted by these trends. So I feel like the strategy is working for us.

S. Craig Lemasters

Hey Dan, its Craig, let me just jump back in on Solutions real quick, but I think an interesting point on we call, IUI coverage here. It's a real big part of course of our global strategy and while it's not really growing domestically, our knowledge of those just talking about sort of what happens in these trends, is real helpful to us as we've taken this product to new countries and being able to price it, where there is usually some concern and some uncertainty about how to do that and we are able to leverage 50 years of data and experience on this and in other countries.

Dan Johnson
Citadel Investments

Great. Thanks very much for the answers.

Robert B. Pollock

Okay, we are pleased to be off to a strong start in 2008. The enduring quality of our diversified specialty insurance model continues to produce excellent results for our shareholders. We will manage our short term challenges, while we continue to focus on pursuing growth opportunities with our eyes on the long-term horizon. We thank you for joining us today and look forward to updating you on our progress.

Operator
This does conclude Assurant's first quarter conference call. You may disconnect at this time.