S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

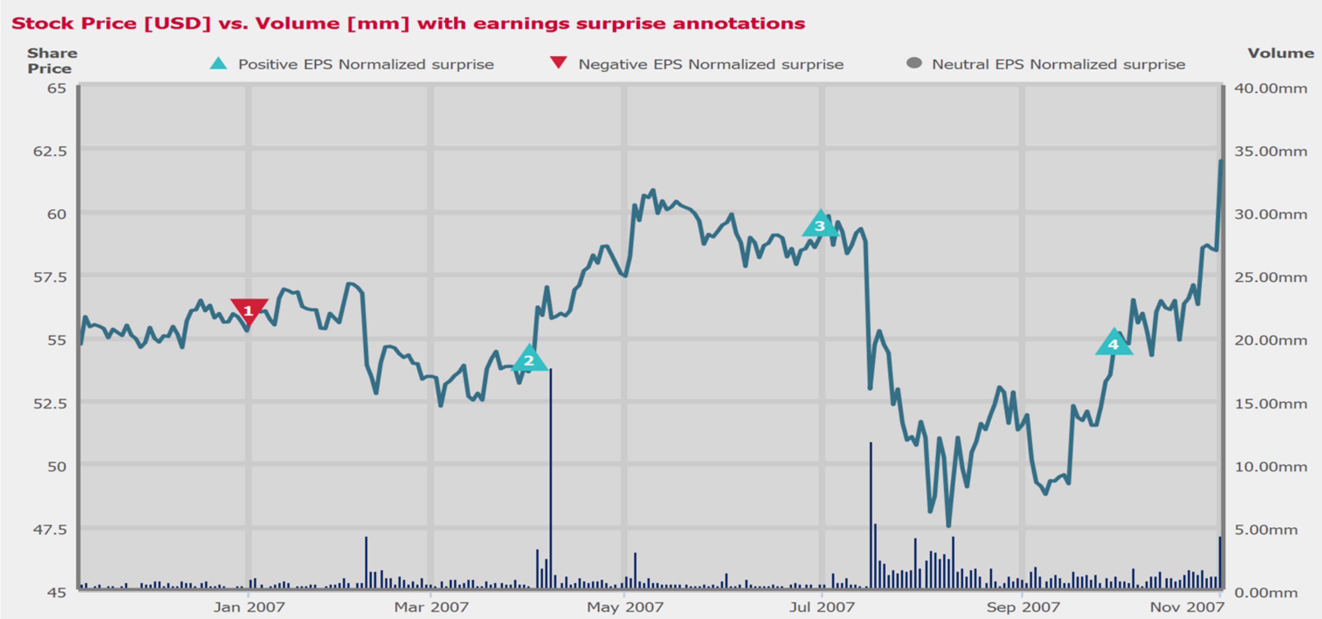
FQ4 2007 Earnings Call Transcripts

Thursday, February 07, 2008 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2007-			-FQ1 2008-	-FY 2007-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.29	1.29	0.00	1.54	5.72	5.72
Revenue	-	-	(1.00 %)	-	-	-
Revenue (mm)	2205.35	2183.33	-	2242.69	8481.57	8453.52

Currency: USD
Consensus as of Jan-29-2008 8:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2006	1.12	1.08	(3.57 %)
FQ1 2007	1.20	1.42	18.33 %
FQ2 2007	1.26	1.37	8.73 %
FQ3 2007	1.28	1.63	26.36 %

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Call Participants

EXECUTIVES

Craig Lemasters

Kerry Clayton

Melissa Kivett

Michael J. Peninger

Robert B. Pollock

ANALYSTS

Adam Klauber
Fox-Pitt Kelton

Dan Johnson
Citadel

Elizabeth Malone
Keybanc Capital

Gene Mergelmeyer

John Hall
Wachovia Capital

Jukka Lipponen
Keefe, Bruyette & Woods

Keith Walsh
Citigroup

Mark Hughes
SunTrust

Steven Schwartz
Raymond James

William Wilt
Morgan Stanley

Presentation

Operator

Welcome to the Assurant fourth quarter 2007 financial results conference call. All lines have been placed on mute to prevent any background noise. [Operator Instructions]. Thank you. 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

Thank you Cheryl. Welcome to Assurant's 2007 fourth quarter and year-end 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 Craig Lemasters, President and Chief Executive Officer of Assurant Solutions. I'm also pleased to be joined by other members of our senior leadership team, who'll be available for questions you have. Don Hamm, President and CEO of Assurant Health; Gene Mergelmeyer, President and CEO of Assurant Specialty Property; John Roberts, Interim President and CEO of Assurant Employee Benefit; Chris Pagano, our Chief Investment Officer and Treasurer; and Kerry Clayton, President and CEO Emeritus of Assurant.

Prepared remarks will last approximately 30 minutes, after which time we'll open the call to questions. This morning we issued a press release announcing our fourth quarter 2007 financial results. The press release as well as corresponding supplementary financial information may be 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 differ materially from such 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, this presentation will contain non-GAAP financial measures, which we believe are meaningful in evaluating the company's performance. For more detailed disclosures on these non-GAAP measures, the most comparable GAAP measures, and a reconciliation of the two, please refer to this morning's earnings press release and supplementary financial information posted on our website. Before I turn the call over to Rob, let me mention that we continue to cooperate fully with the SEC in order to resolve the ongoing investigation. Timing is extremely difficult to predict, but we continue to focus on resolving this matter. While we understand that you may have questions, this confidential inquiry is still ongoing and therefore we cannot provide any further detail.

And now it's give me great pleasure to welcome back Rob Pollock, our President and Chief Executive Officer.

Robert B. Pollock

Thank you Melissa. Good morning everyone and thank you for joining us today. It's great to be back with you all on this call. Before I begin, I want to recognize and thank Kerry Clayton. Kerry, what can I say, you returned as quarter back of Team Assurant without missing a beat. You have again done a marvelous job in leading the company. On behalf of our employees, customers, and shareholders I would like to express my appreciation for all you've done Kerry, and wish you all the best as you enter what I have heard you describe as the blissful world of retirement later this month.

Assurant's results this year again demonstrate the strength and continuity inherent in our diversified specialty insurance strategy as we continue our pursuit of long-term profitable growth in key areas, including creditor-placed homeowners, service contracts, international expansion, individual medical, and the small case employee benefits market. By continuing to execute on our strategy, we have built upon a strong financial foundation even in a slowing economy delivering growth in net operating earnings per share and book value per share while maintaining excellent operating ROEs.

Assurant Specialty Property continued to leverage its leading position in creditor-placed homeowners to deliver record net earned premiums and excellent profitability. Growth in creditor-placed homeowners can primarily be attributed to the rise in average insured values for property and increased policy placement rates. Net operating income also benefited from mild weather and excellent combined ratios. Assurant

Solutions made steady progress in 2007 by focusing on its three targeted growth areas; international, extended service contracts, and preneed. We executed on our focused strategy by making three fold-in acquisitions to support our business. Internationally, we made two acquisitions in the U.K to support our niche play of selling credit insurance through mortgage intermediaries. In the U.S,. our acquisition of Mayflower has already had a positive impact on our results and we are pleased with the extension of our exclusive distribution partnership with SCI through September 2013. Craig Lemasters is here today and will discuss the results for Solutions in more detail.

Assurant Health's net operating income and net earned premiums for the year are both down compared to a year ago resulting mainly from the decline in small group insurance. However, we continue to deliver strong ROEs and maintained excellent combined ratios while growing net earned premiums in individual medical, our targeted growth area. Our key challenges are sales and membership in our individual medical business. We remain committed to a prudent disciplined approach to long-term profitable growth in individual despite an increasingly competitive environment and we are well positioned with the tools to compete. These tools include our risk management capabilities, our comprehensive product portfolio which is growing as we design additional products for the individual consumer, and our ability to reach customers through a variety of distribution channels. Advantage Agent is a great example of our proprietary technology, which bundles all of these tools.

Assurant Employee Benefits again made a solid contribution to profits while continuing to focus on the small employer market, those with less than 500 employees. Overall, the declines in net earned premium have slowed and we feel this is a positive indicator of our progress. We have also continued to enjoy favorable loss experience and improving persistency. Throughout 2007, we've seen strong sales momentum and have continued solidifying our relationship with brokers who emphasize the small employer market. As a result of the changes we have made over the past two years, we are optimistic that we will begin to see net earned premium growth during 2008.

Turning to overall corporate matters. Assurant continues to maintain its disciplined approach to capital management. Our balance sheet and capital position both remained strong. Our book value is growing and we have maintained the low debt to capital ratio. Our operating return on equity for 2007 was 17.8%, which we believe places us in the top quartile for the industry.

Let me turn next to our excess capital position. Due to our ongoing SEC investigation, legal counsel has advised us against reinstating our share repurchase program at this time. We will keep you apprised when the situation changes. But in the current economic environment, our capital position and strong balance sheet provides the needed flexibility to capitalize on potential market dislocations. With respect to our capital position, we started 2007 with approximately $450 million of excess capital and ended the year with about $250 million. In 2007, strong operating results in the Mayflower consolidation allowed our subsidiaries to dividend over $400 million while supporting the capital requirements arising from our business growth. In terms of uses, we made acquisitions totaling $200 million, we paid interest to bond holders of $40 million, and returned money to our shareholders through dividends of $55 million and stock repurchases of $313 million.

So, in summary, even in the context of a slowing economy, our results continue to demonstrate the value of our diversified specialty insurance strategy.

Now, I'd like to turn the call over to Craig Lemasters. Craig?

Craig Lemasters

Thanks Rob. It truly is terrific having you sitting next to us this morning. So, again welcome back and good morning everyone. At Assurant Solutions, we continued to make steady progress in our key targeted growth areas. International gross written premium is up 22% year-over-year and service contracts are up 16%. Preneed sales are poised to grow in our extended exclusive relationship with SCI, the largest funeral home chain in North America. We continue to execute our targeted M&A strategy as investment income grew as a result of our acquisition of the preneed insurance company, Mayflower. We also completed several foreign acquisitions, which we expect should accelerate our growth and enhance our market position over the long-term.

Assurant Solutions' fourth quarter net operating income of $32.3 million was down 19% versus the fourth quarter of 2006. Our quarterly results included two offsetting items, a $3.8 million after-tax benefit from a completed client commission reconciliation project and $3.4 million after-tax loss from a client related settlement. Net operating income for 2007 was $143.9 million, a 9% decrease compared to 2006.

Now I like to give you some perspective on the decline for both the quarter and the year and why we are optimistic for the future. Domestically, the decline is primarily due to the previously disclosed loss of a debt deferment client in late 2006 and higher domestic combined ratios due to less favorable service contract loss experience. Internationally, our combined ratios are up due to $8.9 million of investments made for developing countries in the quarter and $31.1 million for the year to support our international expansion as well as a modest increase in overall expenses to support our growing international infrastructure. Overall, we continue to focus on improving profitability in our service contract business by pulling various levers such as changing rates, revising terms and conditions of contracts, and changing deductibles. We can also improve claims administration and reduce client commissions to improve profitability. The two service contract clients we've previously mentioned demonstrated improving results and we expect this to continue.

We are optimistic about the impact of our acquisitions of Centrepoint Insurance and Swansure Group in the U.K. last year. Both deals expand our distribution and geographic footprint in the U.K. and build scale for our administrative servicing platform. As a result of the accounting for the intangible assets acquired, we have incurred amortization and integration costs of $2.2 million after-tax in 2007. After completing purchase accounting, the combination of the two transactions are expected to be minimally dilutive in 2008. These products cover life visibility and unemployment on monthly payments and with the acquisition of these expanded distribution channels, we are well positioned in the U.K. mortgage credit insurance market by giving us additional access to new clients, better customer relationships, and excellent technologies. And consistent with our opportunistic and prudent M&A strategy, we also acquired Mayflower this year as part of the extension of our exclusive distribution agreement with SCI. We were able to extract $45 million of excess capital from this acquisition.

Our international growth strategy is based on the principle of achieving better margins, which we believe can we accomplished through more growth opportunities that are available domestically. We continue to see many attractive long-term opportunities outside of the U.S. We currently have six countries in the development stage; Spain, Germany, Denmark, Italy, Mexico, and China. And as previously mentioned we do not plan on entering any new countries in 2008 given the opportunities we have in these existing new markets. International combined ratios while up for the quarter and the year will improve as we build scale. And despite some of the pressures on our combined ratios, we remain optimistic about our long-term profitable growth prospects in our targeted growth areas, both domestically and abroad.

Solutions net earned premiums were up 10% to $678.8 million in the fourth quarter, an increase of 7% to $2.5 billion for the full year of 2007. This increase is being driven by the continued growth in our domestic and international service contract business. Also, the Mayflower acquisition added $8 million of premium to the fourth quarter and $17 million of premium for the year. Despite slowdowns in the retail sales environment and the bankruptcy of one of our service contract clients, gross written premiums for our domestic service contracts grew 5% in the quarter. The increase was primarily driven by strong holiday sales by key clients as well as production from our new wireless client, Leap Wireless International, through their cricket branded locations. Overall domestic gross written premiums were down slightly due to the decline in domestic credit insurance. And for the full year, domestic gross written premiums were up 6% again primarily due to the strong growth in service contracts with existing clients. International gross written premiums were up 20% in the quarter and 22% for the year primarily due to the continued strong growth in service contracts particularly from Canada, Brazil, and Argentina. We are also seeing growth in our international credit business.

The income increase for the quarter due to the growth of our domestic and international service contract businesses and was down only slightly for the year despite the loss of a debt protection client we previously disclosed. Assurant Solutions' net investment income increased 9% for the quarter and the year. These increases resulted from higher invested assets from the growth of our service contract business and from the Mayflower acquisition as well as increased real estate income for the year.

Overall, I am very pleased with our continued progress in our targeted growth areas. We continue to remain focused on improving our combined ratios and ROE. To help broadly understanding of our business, I hope many of you will join us next month in Miami as Assurant Solutions' management team provides a deep dive into our business and for those of you unable to attend, we will also be webcasting the workshop presentation. So, stay tuned for more details.

Now I'd like to turn to call over to Mike.

Michael J. Peninger

Thanks Craig for sharing those valuable insights on Assurant Solutions with us today. Assurant's net operating income during the fourth quarter of 2007 was up 13% to $155 million or $1.29 per diluted share led by the continued strong performance of Assurant Specialty Property. For the year, net operating income increased 15% to $694 million or $5.72 per diluted share. Net earned premiums increased 11% for the quarter mainly due to strong growth in Assurant Specialty Property as credit replaced homeowners business and growth in Assurant Solutions service contract and preneed insurance businesses. For the year, net earned premiums were up 8% driven by Assurant Specialty Property. Net investment income grew 8% during the quarter and year to $197.8 million and $799.1 million respectively. The increases were driven primarily by growth in invested assets.

Net income in the fourth quarter of 2007 decreased 52% to $120.8 million. In the fourth quarter, we realized $6.6 million in after-tax losses as we reduced our exposure to several sectors that were negatively impacted by the deteriorating credit markets. In addition, we recorded $27 million of after-tax realized losses due to other than temporary impairments in our investment portfolio. These included approximately $4 million after-tax out of our $40 million aggregate subprime ABS holdings of 2006 vintage. Our impairment decisions based on the uncertainties surrounding the current credit market continue our proving conservative approach to asset management. Let me also point out that all of the securities we wrote down continued to pay principal and interest and we have already seen noticeable market value improvements in January. Net income in the fourth quarter of 2006 was positively impacted by $63.9 million after-tax from the sale of our interest in the PHCS Network and $40.5 million for a favorable legal settlement. As a result, net income for 2007 was down 9% to $653.7 million, which includes $31.3 million of after-tax losses… realized losses from other than temporary impairments in the investment portfolio.

Craig covered Assurant Solutions, so now let me turn to the results from our other businesses. Assurant Specialty Property had a remarkably strong year on the both the top and bottom lines. Fourth quarter net operating income was up 56% to $99.9 million and grew 57% for the year to $379.2 million. Growth in net operating income can be attributed mainly to the continued growth in creditor-placed homeowner’s insurance and continued excellent combined ratios driven by exceptionally mild weather and our ability to leverage the benefits of scale. Our catastrophe losses from the California wild fires totaled $22.2 million after-tax net of reinsurance for the fourth quarter and the year compared with no catastrophe losses in the fourth quarter of 2006 and $4.5 million after-tax for the full year of 2006. Net earned premiums driven by continued organic growth from the creditor-placed business increased 36% to $476.4 million in the fourth quarter and 39% to $1.7 billion for the full year. Full year results also benefited from the 2006 acquisition of Safeco's creditor-placed business. Growth in the business was driven by several key factors. First, average insured value per property rose to $157,000 in the fourth quarter, up 17% from the fourth quarter of 2006. Second, we continued to see increases in the penetration rates in our subprime loan portfolios. Subprime penetration rates are now in the range of 6% to 15%. Prime portfolio penetration rates remained within our historical range of 1% to 2%. Real estate owned loans represented about 19% of creditor-placed written premiums in the fourth quarter of 2007, up from 18% in the prior quarter and up from 11% in the fourth quarter of 2006. Third, we added 170,000 subprime loans during the fourth quarter by wining new business, which helped to offset the loss through industry consolidation of 630,000 subprime loans that we mentioned last quarter. We feel confident that our leadership position in the creditor-placed homeowners market combined with our alignment with market leaders positions us well to benefit from future consolidations and win new business. Even with the outstanding growth in the business, we are pleased that our geographic spread of business has remained relatively consistent. Creditor-placed insurance in our real estate owned properties helped to diversify and improve our spread of risk and we continue to actively manage this exposure. Also on the risk management arena I am pleased to report that we recently placed half of our primary catastrophic reinsurance layers for 2008. Due to the exceptional growth of the business we purchased an additional $110 million of coverage increasing our upper limit to $660 million. We maintained our $90 million base deductible program and we are also able to obtain lower rates in a softer pricing market. We'll update you on the full program once it has been placed later this year. Specialty Property results also reflect a 43% increase in investment income during the fourth quarter and a 35% increase for the year due to the increase in invested assets that was fueled by the growth of the business.

Assurant Health delivered solid earnings during the fourth quarter and for the year despite an increasingly competitive landscape. Fourth quarter 2007 net operating income was $38 million, up 3% compared to the same period of 2006. Results for the quarter benefited from $2.5 million after-tax from a legal settlement. Net operating income for 2007 was $151.7 million, down 10% from 2006. The decrease for the year reflects the decline in small group net earned premiums and less favorable small group experience, partially offset by net earned premium growth and favorable loss experience in our targeted growth area of individual medical. Our combined ratio for the fourth quarter was 91.5%, and was 92% for the year. These represent a decrease of 80 basis points for the quarter and an increase of 60 basis points compared to 2006, still excellent by industry standards. Net earned premiums in the fourth quarter of 2007 were down 2% compared to the fourth quarter of 2006. Individual medical net earned premiums grew by 4%, primarily due to higher premiums per member. This was offset however by a 13% decline in small group premiums. Net earned premiums for 2007 decreased 2% to $2.05 billion. Continued growth in individual medical premiums during the quarter and the year was offset by a decline in small group premiums. The individual medical market has become increasingly competitive as established players and new regional entrants more aggressively target this growing segment of the health insurance market. Individual medical sales were up 7% for the year, but dropped in the quarter reflecting the competitive environment and our pricing discipline. Despite the competition, we remain confident of our ability to maintain our leading position in individual medical over the long term. We'll leverage our deep understanding of the health business and use our core skills and risk management to achieve long-term profitable growth while delivering a strong ROE.

At Assurant Employee Benefits, net operating income decreased 17% during the fourth quarter to $16.2 million. Results declined primarily due to a slight increase in the loss experience as a result of a $2.1 million after-tax adjustment to reflect New York State's clarification of certain disability contract provisions and a decline in investment income. Group disability experience continued to be favorable. Dental and life loss experience though still performing well were not as favorable as in 2006's fourth quarter. For the year, net operating income rose 4% to $87 million driven by continued favorable overall loss experience particularly in-group disability. The business also benefited from an additional $9.2 million of after-tax real estate investment income compared to 2006. Fourth quarter net earned premiums increased 4% to $291.6 million. This increase was driven primarily by a single premium of $14.3 million from a closed block of group disability business. For the year, net earned premiums decreased 3% to $1.14 billion, due mainly to the continued implementation of our small case strategy and adherence to our pricing discipline. We continued to solidify and build upon the gains we've made over the past few years with our focus on the small employer market. We have seen an increase in sales for the year as we gained momentum in this market and have seen favorable loss experience due to pricing discipline and our focus on the small case market. We believe the small businesses we've chosen to focus on have more favorable risk characteristics relative to larger employers in these times of economic uncertainty. For the year, we saw a 25% increase over all in the number of cases sold in our targeted growth market of under 500 lives, including a 44% increase in dental cases. We continue to benefit from the network agreement we launched a year ago and have seen strong sales momentum in dental throughout the year.

Next, in our corporate and other results, we reported a net operating loss of $27.4 million for the fourth quarter 2007 compared to a loss of $19.9 million in the fourth quarter of 2006. Higher losses are mainly due to $4.3 million of after-tax expense during the quarter relating to the ongoing SEC investigation regarding certain loss mitigation products. The fourth quarter 2007 results include $6.4 million of net tax expense associated with changes in certain tax liabilities compared with $6.2 million of similar tax... net tax expenses in the fourth quarter of 2006. Our corporate and other net operating loss for 2007 was $49.4

million compared to a loss of $32.8 million during 2006. The higher loss for the year was primarily due to $7.5 million of after tax expense related to the SEC investigation and $3.7 million of additional net tax expense associated with changes in certain tax liabilities.

Our balance sheet remained strong. As of December 31, 2007 total assets were $26.8 billion and total shareholders' equity, excluding accumulated other comprehensive income, was $4 billion. Book value per diluted share excluding AOCI grew 13% in 2007 to $33.73. Our debt-to-capital ratio excluding AOCI improved to 19.7% another indication of our financial strength.

Given general market concerns about investment portfolios, let me speak to the benefits of the discipline we apply to our portfolio. First, our total invested assets are approximately $14 billion and are composed almost exclusively of fixed-income securities. Direct subprime exposure is roughly $80 million or less than 1% of the total portfolio and we have no ALT-A or subprime related collateralized debt obligations. Insured municipal bonds comprised less than 2% of our portfolio and have an average underlying credit rating of AA. We have a well diversified portfolio of commercial mortgage loans, which represents just over 10% of the portfolio and has an average loan-to-value ratio of just under 40%.

In summary, Assurant's continued focus on the disciplined execution of its proven strategy delivered strong results for shareholders this year. By leveraging our core capabilities and expertise in the specialized markets we operate in, we continue to make steady progress in our key targeted growth areas.

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

Robert B. Pollock

Thanks Mike. Before I open the floor for questions, I wanted to take a moment to reflect on the achievements over the last year and our progress since we went public in early 2004. In May of 2007, Assurant was added to the S&P 500 index reflecting our steady execution as a public company. We have expanded our statistical supplement several times to improve transparency and in 2007 we focused on our solutions business. In 2007, we held our third Investor Day and our first business workshop. The workshop focused on our Specialty Property business to provide our investors with further insights into our business model. In 2007, we increased our quarterly dividend per share by 20% and since becoming public, the dividend has increased over 70%. In 2007, we repurchased 5.7 million of shares for $313 million. This brings our total repurchases to nearly 26 million shares and $1.14 billion. In 2007, we made several small fold-in acquisitions to support our targeted growth areas continuing our successful activity that began in 2006. So, as we turn the page to 2008, we believe Assurant remains well positioned for the future.

And now operator we're ready for questions.
Question and Answer

Question and Answer

Operator

[Operator Instructions]. Your first question is coming from Keith Walsh with Citigroup.

Robert B. Pollock

Good morning Keith.

Keith Walsh
Citigroup

Just wanted to say, Rob, welcome back and thanks to Kerry for stepping up as well. Couple of questions. First for Gene. I was a little surprised to hear that the prime delinquency penetrations really haven't changed. I'm looking at the mortgage data and I see those rates continue to tick up every single quarter and just curious why you haven't seen that expand out of the 1% to 2% penetration rate you guys have talked about. And then if you're seeing any opportunities from Banc of America, Countrywide with the Balboa, any dislocation there you guys can take advantage of and then I've got a follow up for Craig. Thanks.

Gene Mergelmeyer

Okay. Thanks Keith. And I'll try and give you some clarification around those areas. We have seen small increases in our prime penetrations, but we're still within our 1% to 2% range. So, we didn't specifically disclose those. We are seeing both delinquencies and foreclosures spike up in the prime side, some of that is being driven by some of the second mortgages, which we typically don't have opportunity to place on and we also don't necessarily write the REO coverages like we do... intend to do on the subprime mortgages. So, you're going to see some... I think you're going to see some increase in penetration not quite as dramatic as we've seen on the subprime side, but we certainly feel that we're well positioned based on the macro economic conditions in the mortgage market.

Keith Walsh
Citigroup

Yes Gene, just a follow-up on that really quick. Based on past... let's say issues in the mortgage market going back... however long you can, 10 years, 15 years; how high has this penetration gotten in the prime book in the past?

Gene Mergelmeyer

Well, I don't know that I can go back that far and look at penetrations. I think we looked at the business a lot differently in those days as well and there was a lot less subprime lending going on at those points of time. You can even go back just three and four years and it was just a fraction of what it has been. So, I don't know that that's really going to be relevant as we look at going forward. I could try and address your other discussion, which is around Banc of America and their purchase of Countrywide. We certainly don't see any downside and we think there could be some upside. To the extent that Banc of America does scale back their wholesale and their subprime lending, like they have discussed, again with our leading market share position and our alignment with kind of the industry leaders, we feel that we could gain some additional growth to the extent that some of our existing partners pick up some of that volume.

Keith Walsh
Citigroup

Great. And then just for Craig, specifically on the domestic extended service contracts. I guess if consumer spending slows, I guess less people are going be buying domestic service contracts, but I guess I kind of get that. But does the penetration rate change with that as well like will people buy warrant... be less likely to buy a warranty in a recessionary environment then they are in a normalized environment?

Craig Lemasters

Keith, we actually tend to see at least in the short-term an uptick in the attachment rates as we refer to it and largely driven by retailers who will need to increase sales as well. So, we are working very hard with our retail clients right now on the whole upfront sales and sales tracking programs that we put into these clients because again our programs become even more important to the retailers. We've also tended to not see a drop off in the value of the products people that like these products, they understand and see the value doesn't tend to fluctuate in these times. But I will tell you, I think one of the real values of our model right now, one of our motivations for as you know the international expansion is in times like this. If we have a downturn in one particular economy as we build scale around the world to a degree it will insulate us and help us to offset that. So, for us it's just further validation of our international expansion.

Keith Walsh
Citigroup

Great. Thanks.

Operator

Thank you. Our next question is coming from Adam Klauber with Fox-Pitt Kelton.

Robert B. Pollock

Good morning Adam.

Adam Klauber
Fox-Pitt Kelton

Good morning Rob and welcome back also. Thanks. I guess for Solutions, will a turn in the margin be evident there in 2008 or is that more of a 2009 before we see material change?

Robert B. Pollock

Adam, we don't really comment in terms of the specifics on that type of trend. But I'll tell you what I can tell you is I am, as I reported obviously very excited about the growth we're seeing really both domestically and internationally with 22% outside of U.S. and then the domestic ESC at 16%. So, again I'm very encouraged by that. Our strategy and our niche focus is working not just here, but outside of the U.S. so we are going to continue to push very hard particularly internationally on the scale and that really is our biggest opportunity to continue now to reduce the combined ratio internationally and we've talked about the mid-90s as companies... countries get more mature and we're still very comfortable that that's a valid target for us.

Adam Klauber
Fox-Pitt Kelton

Craig, do you expect investment in '08 and '09 to be at the level it was in '07 in international?

Craig Lemasters

Again Adam, we probably won't comment on the specifics of the investment, but I would see it in a similar range. And what we are seeing as these developing countries begin to literally do business and we start to acquire accounts, it is hard to predict because a lot of the initial expense is somewhat of a fixed expense to get the company basically up and running. As we build clients and start to have some success in sales in these countries, that's when we add the variable expense to put on business. Again, if you look at our... the mix of our business, some of that business earns faster like credit insurance tends to do and can contribute so on a net basis, it's not a drag in any given country. Some of it like the warranty business and we're seeing in some countries, the warranty business kind of being the lead product, but as you know that takes longer to earn so there's mismatch then in the expenses we have upfront to really start building these new clients versus the earnings that are coming back in. The other variable in it is China. I've mentioned before that China will be more expensive, which I think everybody experiences to go in there. The systems and people costs are just different in China, so we could see an uptick next year for the China investment as well.

Robert B. Pollock

And Adam, I'd just point out we are conservative. We've mentioned previously that we are not backing any of these expenses Craig is talking about internationally. Okay. So, those are running through the P&L with that upfront fixed cost and we think that's the prudent way to approach the market and very consistent with our overall financial philosophy.

Adam Klauber
Fox-Pitt Kelton

Thanks. One last question. Rob, you mentioned in your initial comments around capital that you are seeing dislocations. Given a tough environment for a lot of financial service companies, does that maybe tilt the balance on the use of capital towards acquisitions over the next 12 to 18 months for you?

Robert B. Pollock

We... Adam, we can't comment on any specifics, but we think the world has really changed from the world of the financial buyer to the world of the strategic buyer and we see ourselves being in that second category.

Adam Klauber
Fox-Pitt Kelton

Okay. Thanks a lot.

Robert B. Pollock

Sure.

Operator

Thank you. Our next question is coming from Mark Hughes with SunTrust.

Robert B. Pollock

Good morning Mark.

Mark Hughes
SunTrust

[inaudible] and prices influence that, is that all? What should we anticipate the trend for next few quarters?

Robert B. Pollock

Sorry, we missed the beginning of the question Mark. If you could repeat it, we'd appreciate that.

Mark Hughes
SunTrust

Yes, sure. Well, your average property values, they are still moving up quite nicely in the Specialty Property business. Is there some point at which the declining home prices influence that or are there other drivers that will keep that moving up?

Gene Mergelmeyer

Hey, Mark, thanks. Yes, that is a question we get quite regularly and quite frankly, we haven't seen any of that trend going down. It continues to increase at somewhere around the mid-teen rate. Typically these... these are replacement cost values and they don't vary with home price. They are going to vary more with kind of a global demand for both materials and labor as well as a continued concerted effort by the agents to really get adequate replacement costs on the policies and that trend has continued.

Mark Hughes
SunTrust

That's good. And then the average period that the coverage is in effect when you take over I guess especially from a real estate owned property, have those periods extended or how long are those properties under coverage, has that changed?

Gene Mergelmeyer

Well, I can try and comment on that as well. This is certainly unprecedented times to begin with. So, yes, we are seeing some increased durations and they happen in a lot of different phases. As the foreclosed properties are actually staying on the books longer, we are continuing to see our duration in real estate owned policies continue as well. With other delinquencies and things of that sort, we are seeing them appear certainly before they go into foreclosure as well as in for foreclosure and then in cases particularly on the subprime side, we are also picking that up as part of real estate owned.

Mark Hughes
SunTrust

Thank you.

Operator

Thank you. Our next question is coming from Beth Malone with Keybanc.

Robert B. Pollock

Good morning Beth.

Elizabeth Malone
Keybanc Capital

On the Specialty Property, whether in the fourth quarter, did you release any favorable reserves in that quarter?

Gene Mergelmeyer

No, there were no special reserve releases development.

Elizabeth Malone
Keybanc Capital

Okay, all right. Thank you. And then on the occlusions operations, you mentioned that claims on creditor side continued to rise, is there… is that just as expected or is there some change that would cause that to happen or is that as expected?

Gene Mergelmeyer

Actually I don't know. I don't think we had any unusual items on the credit side. You must have misunderstood or somebody else must have commented. We were very stable. On the credit insurance business, the claims have been... it's a very stable market domestically. We talked about in the overall 2007 results several quarters ago, we had the credit life loss ratio go up in Brazil and we had seen that stabilize and start to come down as I talked about, we put all of our risk management techniques in there. But that has been the only other opportunity we have had there on the credit side, [inaudible] stable.

Elizabeth Malone
Keybanc Capital

Okay I must have misunderstood. And then just, as far as expansion on the Solutions side, what are the targeted countries or are you going to be expanding in the countries you are already in?

Craig Lemasters

Yeah. That really is the focus right now. As I mentioned earlier, we have no new countries that we will enter in 2008. The real focus is getting the six countries that we have in development really up to speed and get them to be contributors obviously to the profitability of the company and then ultimately ROE. So, we're working very hard on that in 2008. There are other countries we did extensive research when we first launched our international strategy six years ago. There are a number of other countries that are very attractive to us. But one of the things that we want to be very mindful of is that it is not just the money, obviously what we are disclosing now and talking about the dollars we are spending, it's really about the human capital and how far can we stretch to do this right. I mean obviously not very passionate that we have very special techniques in the value chain and all the things we talked about that have worked domestically, that's great. To deploy those in other countries, it's all about people and we want to make sure that we have the right people in these countries to build the company and the culture that is really Assurant. And so that is what we are working real hard on. That is our focus for 2008 is really on the six developing countries. But again as I said, there are more countries that have all of the right metrics that we are looking for that we will get at some point.

Elizabeth Malone
Keybanc Capital

Okay. Thank you.

Operator

Thank you. Our next question is coming from John Hall with Wachovia.

Robert B. Pollock

Good morning John.

John Hall
Wachovia Capital

Good morning Rob, welcome back.

Robert B. Pollock

Thank you.

John Hall
Wachovia Capital

I have several questions. I was wondering if you could offer just some numbers around the prior discussion of policy duration in Specialty Property?

Craig Lemasters

Do you want to get them all out John or you wanted to...?

John Hall
Wachovia Capital

Okay, sure. And then you had indicated that there was $37 million of wild fire related losses, I just wanted to make sure that that number was a statement of results. Also I was wondering if you had any... I know it's early days, whether the tornadoes are something we should be worrying about for the first quarter. And then also on the Specialty Property business, the 6% to 15% rate of penetration is a pretty wide berth on the subprime book, I was wondering if you just give a... and I know how you do it in terms of looking at each client. I was wondering if you would offer a better idea of where that number is skewing in the aggregate.

Robert B. Pollock

Let me just start John, then I am going to turn it over to Gene. Because I think we understand what the questions we get on things, we start with the lenders classification of loans. Okay? So, it is not like there is a definition of prime loan or subprime loan, it's how it is presented to us by the lender. So, you can imagine with the variation in how those get categorized, we are going to see variations in the numbers. The second thing I would add is there is also slight... that they are slightly moving those numbers around sometimes, so they may classify a loan in one bucket and move it to another bucket. So, it causes is all the numbers to move so. With that, I will turn it over to Gene, he can provide some more color.

Gene Mergelmeyer

Sure. And there is also a different make up that is in each one of their portfolios. I mean there are some people that are Alt-A lenders for the most part and they may classify them as subprime and then there is others that are D&F lenders in that same category. So, the range as we've seen has kind of widened. We really tried to just kind to keep up the data as it's moving. We haven't given any specific numbers about our penetration. We have shared with you in the past that we had had somewhat of a 2 percentage point increase year-over-year. That has increased to about 3 percentage point increase. So, I can give you that much.

John Hall
Wachovia Capital

Okay.

Craig Lemasters

So another question you had was on tornadoes, I can't say that we will get some losses out of this event, I think it's still early. I wouldn't anticipate that there is going to be anything material based on our exposure. In regards to your question around our fire losses, we did initially report $37 million as our loss related to the fires and I think at that point in time, we were trying to be conservative based on actual experience through the end of the year. We did bring that down a little bit, so it ended up being ultimately $34.1 million pre-tax that we did record in our financials. I think you had one more question, John, around policy duration and I think I need some further clarification on just what your question is.

John Hall
Wachovia Capital

You didn't really put a number on it, you said that it was lengthening. I was just wondering if you had a starting point on some of those different categories?

Robert B. Pollock

Yes, there is such a varied mix going on in there that it gets difficult to try and pin it down. I think it's lengthening out a bit as one would expect, but it's difficult without going into great detail to provide that, which we are not going to do.

John Hall
Wachovia Capital

Thanks. Just one last thing. On the share repurchase, I heard your comments at the beginning of the call, Rob, I was just wondering if you could share what is the rationale behind the Counsel’s advice?

Robert B. Pollock

I think it's just this. We are a conservative company and we… you’ll see that all over in our risk management etcetera. I think that could there be risk there, there could be given there is other opportunities, we feel that we might as well wait for when things are a bit clearer.

John Hall
Wachovia Capital

Great. Thank you very much.

Operator

Thank you. Our next question is coming from Bill Wilt with Morgan Stanley.

William Wilt
Morgan Stanley

Hi, good morning.

Robert B. Pollock

Good morning Bill.

William Wilt
Morgan Stanley

Hi Rob, welcome back.

Robert B. Pollock

Thank you.

William Wilt
Morgan Stanley

First question is on Health and the individual medical. As that gets more competitive and I understand that a lot of large managed care companies are entering that market, maybe you can affirm that if that's right. Just any dial forward, what do you think are reasonable expectations? Is it that that growth will continue to slow, but margins will stay at or about the same level? Is some margin erosion inevitable? And I guess if you could also consider would you consider selling the business to one of the large managed care companies looking to get into individual medical?

Robert B. Pollock

Sure, let me make a couple of comments, Bill and then I will turn it over to Don to make some comments. But first we've been in this business a long time, we have a long history here and we mentioned I think actually on prior calls that we've seen the big players enter this market. I think what is interesting is given all the growth around things, we've also seen a number of small players enter in the last couple of quarters. This is very typical of the individual market. It's seen as a big opportunity, people enter. I have my doubts whether all those players will be around in a couple of years, okay. So, in the big players, I think they are looking at their large markets really maturing and not being a lot of growth there and looking at individual as a way to supplement that in play, but I think we need to put in the context, okay. The number of people covered for individual medical versus the number of people covered in their core markets is a small, small fraction. They cannot deal with their shortfall on the large group side solely by being in the individual market. It is a different skill set as we've mentioned all along that's why we like this niche business. It leverages on what we are very good at and will continue to be good at and they need to build those capabilities to compete. Some of them have and will do so successfully, but part of our national franchise is we can move and find the opportunities as they exist. So, I think we are well positioned here. We realize there is going to be times when we are going to step back from the fray on pricing and maintain our discipline to maintain an approach that we think produces profitable growth over the long term.

William Wilt
Morgan Stanley

Thanks. Thanks for that. Let me switch gears to Solutions with Craig on. I was watching Circuit City and Best Buy in particular during the holiday season and if I am remembering correctly, they talked about pretty meaningful decreases in their sales of extended warranties and that if my memory serves me correctly and notwithstanding contrasting, Craig your observation about attachment rates increasing during… presently or during a recession. So, I guess I don't know if you want to address that conflict if there is one, but also I guess it is the general observation about the level of attachment rates in the context of an economic or consumer-led economic slowdown.

Craig Lemasters

Sure Bill. Obviously, I don't comment individually on our clients and their individual attachment rates and my comments were really at an aggregate level. We had very strong holiday sales. That's why as I mentioned our overall topline was up on our service contracts both on the quarter and year-over-year. So, it is a strong season for us. Again that's taking all of our clients collectively. I mean and it is obviously a good question as it relates to the overall economy and what that's doing to retail sales. What I meant by attachment rates earlier is that what we are seeing for our larger clients is the desire to get better at this and again I've talked for several years about our value chain and our ability to help clients improve both the attachment rates on the front end and then retention on the back end. So, we are working very, very hard on that. But the other thing to blow that retail EFC space up a little further than just the big box retailers, other big part of strategy is new distribution. And again finding special niches is really what we are about and we are having a lot of success now in some of the niches, a niche in the motorcycle, RV, power sports, I've talked about wireless in the past and mentioned in your comments earlier that we had a nice new wireless client come on. So, I am very encouraged that we'll continue to keep pushing at this industry and not just ebb and flow as the big box retailers might know.

William Wilt
Morgan Stanley

Thanks for that.

Operator

Thank you are next question is coming from Jukka Lipponen with KBW.

Robert B. Pollock

Good morning Jukka.

Jukka Lipponen
Keefe, Bruyette & Woods

Good morning Rob, and welcome back and I also wanted to thank Kerry having to move in to step under the circumstances. A couple of questions. First of all for Craig, can you give us an update in your efforts in China?

Craig Lemasters

Hey you got me. We're basically at start up phase there. On the insurance side the regulatory environment is very unique, it takes a minimum of two years before you can even apply for your license that's after you open your rep offices. That's the phase we're in on the insurance side now is opening our rep office and then we begin the two-year process of application. I guess the good news in China for us has been the service contract business where we can write it as a service and non-insurance. So, we have in the fourth quarter opened our office in China, we've hired our initial staff, we have a manager in place for the service contract business, and we're still actively searching for our general manager there. So, our template of how we start a country is really well under away, and the initial indications are the overall service contract business is very attractive to us. We have ongoing discussions now with the retailers there and are quite encouraged by that. With that said, it is a very in-depth process to enter any country and in particular China and obviously the distance, the language, etcetera. So, I would expect most of 2008 we will be in a gear up mode preparing to enter the service contract business.

Jukka Lipponen
Keefe, Bruyette & Woods

And secondly, how does your loss ratio for the REO business compare with the loss ratio for the rest of your creditor-placed business?

Gene Mergelmeyer

Okay. Jukka, this is Gene and let me try and respond to that. We typically don't break out specific loss ratio components among our business. What we have said though is that we do have consistent combined ratios in the REO business with the rest of our business and we continue to see that. Again, I think we've got good momentum, we had record year, and we see that continuing in '08.

Jukka Lipponen
Keefe, Bruyette & Woods

And lastly Rob, I don't know what kind of color you can give us, but obviously a lot of people are wondering how confident was the Board in reinstating you that there wont be any issues that could hinder to your ability to function as CEO from a regulatory standpoint. So, anything... any kind of color that you can give us there will be helpful.

Kerry Clayton

This is Kerry, I'll take that one since Rob is back about ten days. The Board did complete a very comprehensive review with respect to Rob and concluded that it was in the best interest of the company and shareholders obviously that Rob resumed his leadership of the company. They viewed that he had acted consistently in the best interest of the company and that he is great vantage of the company and he has the full support of the Board in that. So, he is fully in place and he's leading the company as he did in the past.

Jukka Lipponen
Keefe, Bruyette & Woods

Thank you. And Kerry, enjoy your retirement again.

Kerry Clayton

Thanks.

Operator

Thank you. [Operator Instructions]. Our next question is coming from Steven Schwartz with Raymond James.

Steven Schwartz
Raymond James

Good morning everybody. Welcome back Rob and Kerry, enjoy Mardi Gras next year. A couple of questions centering around Solutions. First I wanted to follow up with Beth’s question. I think she meant to ask about the contract business, your service contract loss experience, she stated was up. She had said creditor business, but I think she met the contract loss experience?

Craig Lemasters

Yes, Steven. And that’s referring back to the two clients we had talked about domestically and we're seeing again all the leverage and the risk management we put in place and then again I referenced that some of the comments this morning. We are very comfortable those are heading in the right direction. We are seeing improvement and again I expect continued improvement and believe we are right on track with four to six quarters that we originally announced.

Steven Schwartz
Raymond James

Okay. So, it's the same two accounts. Okay, that’s good. Just following up [inaudible] auto, getting any traction there?

Craig Lemasters

Okay, let me comment on that. We continue to make progress on the renter side of the business. It still continues to be a smaller business line for us. But actually, we had about 28% growth in that line in 2007. It continues to be an adjacency we are excited about and something that we think will have some ongoing value to assess as we continue to penetrate that market. As it relates to CPI, we continue to make progress in that line. As I said last quarter in particular, it will take time. I also said that it is likely that we will meet to start tracking some portfolios with a second phase of the actual insurance placement and we are executing that strategy and I am opportunistic. I am certainly optimistic that we are going to get some traction around that, we do feel it's good adjacency for us. It's going to be a part of what we hope to be our long-term profitable growth strategy. It is well within our niche market and it's going to serve some untapped needs. So, we are excited about it.

Steven Schwartz
Raymond James

Okay. And then returning back to Solutions and maybe Mike touched on this, but he was moving along pretty fast and I'm tired. The selling underwriting general and administrative expenses of Solutions is up I think an extraordinary amount vis-à-vis the third quarter obviously your business is up and I don't think that explains all that. I am just… is this reflective of international? Is it primarily reflective of what you are spending on international and is maybe something from Mayflower in there as well?

Michael J. Peninger

I'll go first Steven. Yes, I mean I think part of this obviously is international as we talked about, but if you break out some of the other factors that led to the fourth quarter line, one is the U.K. acquisition that we talked about.

Steven Schwartz
Raymond James

Okay.

Michael J. Peninger

So, we have expense put in for that. And then I mentioned also in the earlier comments some other international expenses and really those are all around for the most part U.K. and Europe and things that we just are putting in place, most of which is driven by the FSA, which is the primary regulator there. And it's similar to what we went through in the SOX environment several years ago where a lot of that is people-related spend to get in compliance in terms of our processes and documentation. So, none of it is negative, it just is incremental expense that division does for both our UK operation and really all of Europe because we are operating there under freedom of establishment so we can transfer all those things throughout Europe. So, that's the bulk of it.

Steven Schwartz
Raymond James

Okay. All right. Great, thank you very much.

Michael J. Peninger

Thank you.

Operator

Our next question is coming from Dan Johnson with Citadel.

Robert B. Pollock

Good morning, Dan.

Dan Johnson
Citadel

Good morning. Let's see... a lot of them so let's just get on with Solutions. There is a comment about 170,000 new subprime loans added. Was that as of the end of the fourth quarter or the beginning of fourth quarter?

Gene Mergelmeyer

Hi, Dan. This is Gene and I'll answer that since it was related to the Property business. Yes, we were able to sign a new account around 170,000 subprime loans that was added and signed in the fourth quarter. We will be implementing that and we are implementing that currently and will probably start producing premium around the April timeframe.

Dan Johnson
Citadel

Got it. Great. And then within the corporate line, can you talk a little bit about some of the other expense items that might have run a little bit higher than we've seen prior year excluding items that you've already spiked out for us, it still seems like there is…?

Michael J. Peninger

Yeah, there were a variety of kind of miscellaneous expenses, none of which were worth itemizing by themselves though we had some consulting expenses and some various kind of unusual items that drove up our expenses this quarter and we would expect to see bit of retreat in those expense levels as we go forward.

Dan Johnson
Citadel

And if you rolled all that up, what sort of accumulated number would you end up with do you think for the quarter?

Michael J. Peninger

You mean of the extra?

Dan Johnson
Citadel

Yeah.

Michael J. Peninger

Few million dollars, something like that or so.

Dan Johnson
Citadel

Got it. And then maybe going back to Property, the average insured value numbers are definitely pretty meaningful at whatever you said, 17%. When you think about 2007 and compare it to what 2008 could look like. What do you think... first of all what was the more important driver to premium on '07 penetration or TIVs and what do you think will be the more important driver in 2008?

Gene Mergelmeyer

All right. I will certainly try to address that. We tend to be hitting on kind of all of our growth drivers as we've mentioned. So, insured value... it certainly has been a factor and we see that continuing again based on kind of the items that I discussed previously. Placement rates are also another factor that have been very important in our growth and when you look at again the macroeconomic trends around that, we are seeing delinquencies rising and we think they're going to continue to rise. We've seen forecloses rising and we see that continuing as well as the inventory for closed properties. So, we see those macroeconomic factors adding to our growth. Then you look to loans track and you see some impact there with us being able to add the additional 170,000 of subprime loans, which is really replacing what we disclosed to you in the fourth quarter around the 630,000 loans that we lost due to the industry consolidation. And there is premium rates, which to a lesser extent play in as a factor, but remember we did announce our Florida rate increases. Those were implemented starting really in third and fourth quarter this year. We will continue to get some additional increases in our writings for 2008 and also the increased earnings on those policies that we wrote in this year. So, beyond that we haven't really given any further guidance into the individual components, but certainly insured value and placement rates have been the primary drivers.

Dan Johnson
Citadel

Thank you very much.

Operator

Thank you. Our final question is coming from Mark Hughes with SunTrust.

Mark Hughes
SunTrust

Thank you very much. In the commercial segment, is there much of an opportunity for creditor-placed business there? Do you have much within your mix currently and is that an opportunity you can pursue?

Gene Mergelmeyer

Hi Mark, I will certainly try and address that as well. It is something that we look at on a regular basis. It doesn't quite fit the model that we have in place today except for maybe on certain niche products and it's some adjacencies that we are considering and actually implementing in smaller, commercial type products. And I think that's as far as I can probably go now, but we'll update you in later quarters to the extent that we gain any momentum in those adjacencies.

Robert B. Pollock

And just let me add on that Mark. Each of these businesses are experimenting with little things. We are looking for new niche opportunities like Gene mentioned and sometimes they work and they don't. When they become part of something we think is meaningful, we will keep you apprised and updated on things.

Mark Hughes
SunTrust

Thank you.

Operator

Thank you. I would now like to turn the call over to Rob Pollock for any closing remarks.

Robert B. Pollock

2007 again validated Assurant's diversified Specialty Insurance strategy and showed that it can consistently produce excellent results for our shareholders. By applying our prudent focused approach and by leveraging our core capabilities we will manage our short-term challenges and continue to pursue long-term profitable growth in our targeted areas. We thank you for joining us today and look forward to updating you on our progress.

Operator
This does conclude Assurant's fourth quarter conference call. You may now disconnect.