S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

FQ3 2011 Earnings Call Transcripts

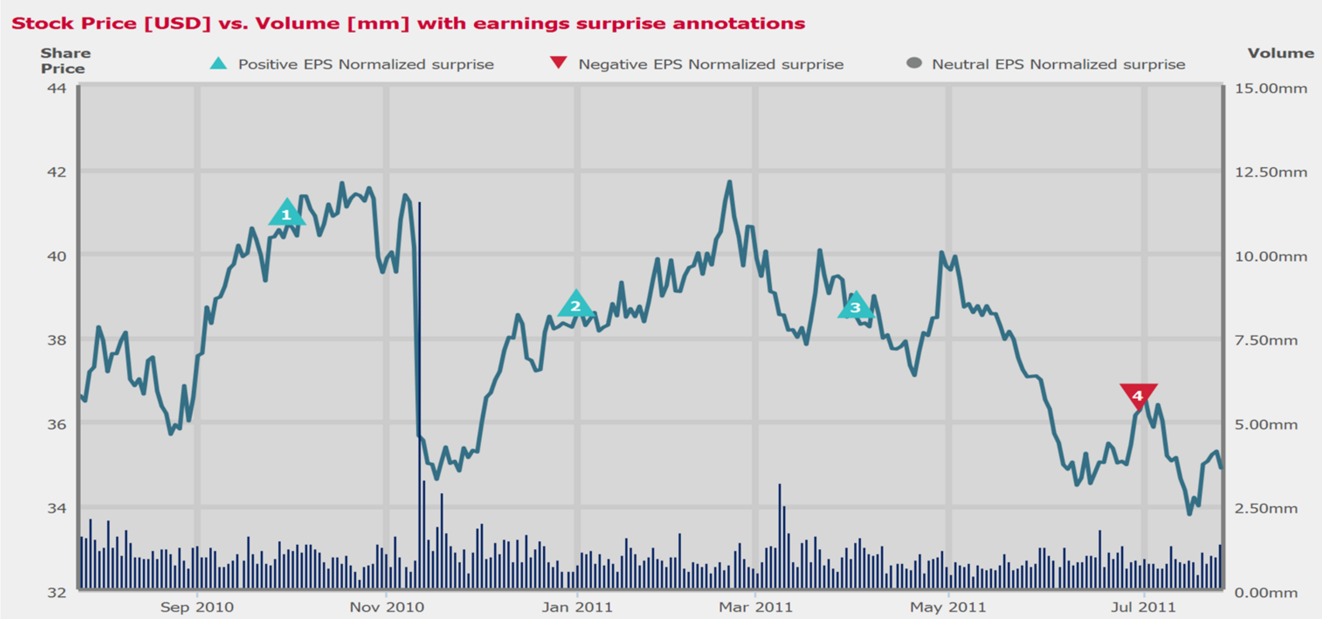
Thursday, October 27, 2011 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2011-			-FQ4 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.79	0.78	0.00	1.34	4.26	5.50
Revenue (mm)	2044.03	2061.72	0.87	2066.79	8182.97	8224.08

Currency: USD

Consensus as of Oct-27-2011 12:00 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2010	1.15	1.27	10.43 %
FQ4 2010	0.99	1.08	9.09 %
FQ1 2011	1.23	1.37	11.38 %
FQ2 2011	0.92	0.76	(17.39 %)

Call Participants

EXECUTIVES

Christopher J. Pagano
Executive VP & Chief Risk Officer

Melissa Kivett
Former Senior Vice President of Business Development and Strategy

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Robert B. Pollock
Former Chief Executive Officer and Executive Director

ANALYSTS

A. Mark Finkelstein
Evercore ISI, Research Division

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Edward A. Spehar
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Jeffrey R. Schuman
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John Arthur Hall
Wells Fargo Securities, LLC, Research Division

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

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

Presentation

Operator

Good day, and welcome to the Assurant Q3 2011 Financial Results Conference Call. [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
Former Senior Vice President of Business Development and Strategy

Thanks, David. Welcome to Assurant's Q3 2011 Earnings Conference Call. Joining me with prepared remarks are Rob Pollock, President and Chief Executive Officer of Assurant; and Mike Peninger, Our Chief Financial Officer. Following the prepared remarks we will open the call to questions. Chris Pagano, our Chief Investment Officer and Treasurer, is also here for questions. Yesterday we issued a news release announcing our Q3 2011 financial results. The news release, as well as the corresponding supplemental financial information, is available on our website at www.assurant.com. Some of the statements we make during today's call may contain forward-looking information. Our actual results may differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those projected in any forward-looking statements can be found in yesterday's news release and our SEC reports, including but not limited to our 2010 Form 10-K which can be accessed from our website. The company undertakes no obligation to update or revise any forward-looking statements. Additionally, the 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 yesterday's news release and the supplementary financial information that we posted on our website at www.assurant.com. Now I'm glad to turn the call over to Rob.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Thanks, Melissa, and good morning everyone. We are pleased with our continued progress in executing our strategy. While our results this quarter reflect considerable storm activity, our focus on creating sustainable value for our shareholders remains strong. Our long-term goals center on 3 key operating metrics: first, operating return on equity. We reported an 8.6% return on an annualized basis excluding AOCI. Catastrophe losses from the storm activity during Q2 and Q3 impacted our ROE; however, we expect ROE will increase in Q4 and future years as our businesses work to improve performance. The second is book value per diluted share. Book value has grown 9.4% year-to-date excluding AOCI. We expect to end 2011 with a double-digit increase in this measure. Third is revenue growth. Our total revenues have not grown in 2011 but we are encouraged that we continue to sign new clients and introduce new products in a difficult economic environment. Let me provide some additional color on the quarter.

I'll begin with Assurant Solutions. We solidified our international presence, reduced expenses, increased our wireless reach and maintained strong pre-need sales. These actions all have contributed to better profitability. Solutions generated meaningful new sales, both domestically and internationally, in a challenging global environment. This can be seen in our growth in gross written premiums. Solutions is well positioned to deliver on its commitment of a double-digit ROE in 2012. Longer-term, we remain focused on progress toward the goals we have outlined. 2011 net earned premiums and fees will be similar to 2010, but we expect modest top line growth in 2012. International, domestic service contracts and pre-need will be the key contributors. We will continue to build our capabilities to serve the wireless marketplace and manage our programs and expenses for continued improvement in the international combined ratio.

Moving to Assurant Specialty Property, quarterly results reflect the impact of catastrophe losses. Our priority is to help our customers affected by severe storms and we continue to assist them as they rebuild and repair their homes. Our strategy to align with market leaders combined with the investments we have made in our tracking system allow us to respond quickly when portfolios move between servicers. This meets an important need for our clients. We are pleased to report that the new client portfolio we mentioned last quarter was successfully implemented earlier than we had previously anticipated. As a result, this portfolio will now generate premiums beginning in Q4 2011. We are well positioned for the movement of loan portfolios that we expect will continue in 2012.

Several years ago, insurance for renters was identified as an underserved market by our Specialty Property Team. We created a different way to connect with customers by partnering with owners and managers of multi-family housing properties. This business generates about $100 million in annual net earned premiums and fees and we anticipate growth will continue in 2012. The acquisition of SureDeposit, the market leader in rental security deposit alternatives, expands our product offerings. We are pleased with our integration progress and the acquisition was accretive during the quarter.

Next, I'll turn to Assurant Health. Q3 results reflect continued progress as we implement our strategy. Sales of our new Health Access and supplemental product offerings continue to gain traction. These products are designed to address affordability needs of consumers. We also enhance technologies so our distribution partners can more effectively serve customers. We continue to drive toward a streamlined structure that will allow us to succeed under the minimum loss ratio regulations, and through the first 9 months of 2011 we significantly reduced expenses compared to last year. It's important to remember that 2011 is just the first year of the implementation of healthcare reform. Additional provisions of the legislation will affect reported results in future years, but our focus remains the same - to generate sales and to realize further expense efficiencies. A better customer experience and a simplified business model will help us achieve these goals.

Moving to Assurant Employee Benefits, our results improved sequentially. Progress in helping claimants return to work was the primary reason. Our strategic focus on distribution through key brokers and our expanded product offerings continued to improve sales of voluntary products. During the quarter, more than half of new sales came from supplemental and voluntary products. Before I turn it over to Mike, let me turn to corporate matters.

Our capital position remains strong. We ended the quarter with corporate capital at a similar level to last quarter. Our strong capital position allowed us to repurchase shares during hurricane season as we outlined on our last call. We continue to believe our share price is attractive. Now, Mike will walk you through the operating results for each business. Mike?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Thanks, Rob. Let's start with Assurant Solutions, where Q3 net operating income was just over $35 million, a 9% increase versus Q3 of 2010. Improved international underwriting experience drove the year-over-year increase. Domestic net earned premiums and fees increased in the automotive and wireless channels. These increases were offset by declines from the continued runoff of Circuit City and our domestic credit business. For the full year 2011 these runoff businesses are expected to reduce premiums by approximately $170 million compared to 2010. The domestic combined ratio of 99.4% for the quarter was similar to the prior year. The combined ratio was sequentially higher as we saw variability with certain clients but we still expect to achieve our full-year domestic combined ratio target of 98%. Internationally, net earned premiums and fees increased 14% versus Q3 2010 driven by growth in Latin America from both new and existing clients. The international combined ratio of 101.5% was 260 basis points lower than Q3 2010. Favorable results in Latin America primarily drove the improvement. We expect the Q4 ratio to be roughly level with Q3 as the stubborn economy in Europe and client installation costs in Latin America temporarily slow the pace of improvement. Pre-needs net operating income increased slightly versus Q3 of 2010 as our partnership with SCI continued to generate strong sales.

Turning now to Assurant Specialty Properties, net operating income was approximately $44 million. This reflects about $52 million of after-tax reportable catastrophe losses including losses from widespread coastal flooding versus no comparable losses in the same period last year. As a reminder, we define a reportable catastrophe loss as an ISO event that results in a loss of $5 million or more. Excluding the reportable catastrophe losses, the combined ratio increased for the quarter primarily due to an increase in the frequency of non-catastrophe weather related losses.

The new clients we added last year, loan portfolio acquisitions by existing clients and an increase in the overall placement rate continued to sustain gross earned premiums in our lender placed business. Q3 net earned premiums and fees declined slightly versus 2010 due to additional premiums ceded to clients and decreased catastrophe reinsurance premiums. Growth in multi-family housing products including SureDeposit partially offset the decline in net earned premiums and fees. The increase in placement rates continues to reflect difficulties in the housing market. We believe they will begin to decline gradually as we outlined in our Investor Day presentation. The pace of the decline will depend on a number of factors including macroeconomic trends, government intervention, and client-specific portfolio characteristics.

Turning next to Assurant Health, I'll again remind you that current results are not directly comparable to prior years due to changes in our business model and the premium rebate accruals required under healthcare reform. Net earned premiums and fees for the quarter were $438 million net of a rebate accrual of $9 million. Our estimates of rebate accruals continue to fluctuate as we adjust our product pricing and evaluate developing loss experience. We now estimate the year-end rebate liability will be in the range of $60 million to $65 million. Sales of our new Health Access and supplemental products continued to show improvement during the quarter. Delivering on our commitment to reduce expenses was an important driver of Health's results. Q3 expenses were $34 million less than they were in 2010. Year-to-date we have reduced our run rate expenses by over $50 million versus last year. We now expect full-year 2011 after tax net operating income for Health to be in a range of $20 million to $25 million. This includes a one-time provider reimbursement of $4.8 million after tax disclosed in Q1 of this year. It also includes approximately $12 million after tax of favorable claim reserve development relative to year-end 2010 reserves. Beginning in 2012, reserve development on products subject to the MLR will be factored into the rebate calculation, thus reducing its contribution to reported earnings.

At Assurant Employee Benefits, net operating income was $13.6 million. The year-over-year decrease reflects the extremely favorable disability experience in Q3 2010 and the lowering of the reserve discount rate earlier this year. Life and dental results were slightly improved versus Q3 last year. Q3 net earned premiums and fees declined slightly versus last year and we expect full-year 2011 premiums to be down as well. The decrease primarily reflects pricing actions on a block of previously assumed disability business and lower prior-year sales. A $5 million single premium transaction during Q3 along with growth in voluntary and supplemental product sales partially offset the decline.

Turning to corporate matters, our capital position at the end of Q2 allowed us to continue to repurchase shares during Q3 despite indications of storm activity early in the cat season. During Q3 we repurchased 2.2 million shares for $76 million. Total repurchases for the first 9 months of 2011 were 9.6 million shares at a cost of $360 million. In Q4 through October 21st we repurchased an additional 652,000 shares for approximately $24 million. Going forward, we anticipate that full-year operating company dividends will at least equal operating earnings and our capital management priorities have not changed. Our goal is to maximize risk-adjusted returns for our shareholders by investing in our businesses to build long-term value and by returning capital versus buybacks and dividends. As Rob said, we believe our share price is attractive and we expect to continue our repurchase activity during the remainder of the year.

Our investment portfolio continues to perform well. Our conservative investment philosophy and disciplined asset/liability management minimize our portfolio turnover and help moderate the pace of decline in our portfolio yield. We are carefully monitoring events in Europe and our direct and indirect investment exposures to that market are low and manageable. In our supplement this quarter, we've included additional information about our Eurozone and European portfolio exposure. In accordance with [FASBE] rules issued in 2010 we will change our methodology for capitalizing of acquisition costs beginning in 2012. We estimate that our beginning shareholders' equity will be reduced by between $140 million and $150 million, or approximately 3% upon adoption of the new rules. The equity adjustment will be non-cash and affects only our GAAP financials. Looking forward, we expect the overall impact of the change on 2012 reported earnings to be small, totaling less than $10 million after tax.

Overall, as Q3 results indicate, we are executing and realizing progress on the commitments we outlined on Investor Day. As we continue to do so we will build a stronger business and create long-term value for our shareholders. Now I'll turn it back to Rob.

Robert B. Pollock
Former Chief Executive Officer and Executive Director
Thanks, Mike. Before moving to Q&A I want to review our strategy of pursuing specialty niche markets. Our business model and strategy are different by design. As a result, certain macro factors have a muted impact on Assurant compared to others. Let me offer a few examples. Our risk-oriented approach to asset management has allowed us to avoid most asset classes that have been problematic. We do not offer products with guaranteed payouts, embedded guarantees or a callability feature. This mitigates the effects of lower interest rates on profitability, and the markets where we've chosen to operate are smaller and have fewer competitors compared to more general insurance markets such as auto or life insurance. This niche focus has allowed us to become market leaders by serving the unmet needs of our customers and clients. In spite of the macroeconomic challenges, we are well-positioned with a resilient and agile business model designed to adapt and withstand marketplace uncertainties. Our agility and adaptability will remain important since we expect volatility in the economy to continue for the foreseeable future. And with that, I'll ask the Operator to open the call for questions. Operator, our first question please.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jeffrey Schuman with KBW.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

Just a couple questions: in Health you've taken down expenses by a lot in absolute terms. I'm wondering if that has played out or whether you can go down further in absolute terms, or is it a matter of just kind of levering the new expense base from here.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I think that we believe we can take expenses down further, Jeff, and of course the other side to that is the upside is we gain traction writing more new clients. I think a lot of the work now, Jeff, is around infrastructure. We did a lot of work on staffing and things like that last year; now we're into redesigning the work processes and hitting and streamlining the systems environment - that all takes a little bit longer. But as Rob said we think there's more we can accomplish there.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

I'm just curious - cutting that much, I mean you must have cut a lot of people. What did most of these people do? Were they concentrated in certain areas or was it kind of across the board or what happened?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, there's lots of different things there. I think we started, Jeff, saying first we want to make sure that we don't do anything that impacts the customer experience, and we were very focused on that. But again, we used to do many things to manage costs that in the new environment count as expenses and in the old environment lowered the cost ratio. Given the loss ratio constraints we had to evaluate each and every one of those areas. A second is just an eye towards, as you look toward 2014 we know that we're going to be in a guaranteed issuance environment and that has impacts on underwriting, and so that's another area we focused on. Third, I think as we mentioned on prior calls, we have had to reduce compensation to agents along with the rest of the industry in order to be in compliance with the minimum loss ratio regulations or to be profitable there. So a variety of different factors that we've tried to push all the buttons.

Operator

Our next question comes from Mark Finkelstein with Evercore Partners.

A. Mark Finkelstein
Evercore ISI, Research Division

You may have said it earlier, I was a little late on the call, but can you just talk a little bit about on the Health side the covered lives number continues to trend higher after kind of going down in 2010. I guess what I'm really interested in is the Access product what is driving the growth, and what is your outlook? And then secondly can you give some flavor for, I know it's early but what is the mix currently between the Health Access account and the more traditional major medical?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. So Health Access is a key contributor to our life's growth. Obviously the Health Access client has a lower premium point than the traditional major medical, but remember we started from virtually zero on this beginning in Q3 2010 or Q4 2010. So the base is small but we're encouraged by the new sales results, and obviously over time we think this will become a growing percentage of our business. It already is but it's a pretty small base today, Mark, and we just haven't split that out. Mike?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yeah, I'll just say that the growth in Access we think directly speaks to the affordability issue in the healthcare system. People are struggling to afford the cost of healthcare and our products allow them to have meaningful coverage. They tradeoff a certain amount of high-level benefits but the premiums are very affordable and allow them access to the healthcare system, and we believe that's a big need in the marketplace that we've tapped into.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Right, and the ability to tailor to their own specific needs has been a fundamental issue over time that is a bit missed with the prescribed, we call them the metallic plans, but the plans you need to offer to qualify under P-PACA [ph].

A. Mark Finkelstein
Evercore ISI, Research Division

Okay, just one follow-up on that: I understand that the premium is a lot lower - it's kind of a different product altogether - but it is higher margin. If you were to take per policy, what is the margin per policy on a similar average policy? What would be the average margin on the Access versus the major medical in this world we're in right now?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I think it's early to say. We think it offers the possibility of slightly higher… We're focused on the blended 4% after-tax profit margin between the two because we know over time as the market evolves, and it will continue to - things will move around a little bit and we're very focused on achieving that longer-term goal we've set out, Mark. And again, we're going to have to see how the product develops, the experience, but we think it offers a little bit perhaps more upside, but it's early in the game yet.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. And then just finally, is the Solutions' international combined ratio, which fell pretty good in the quarter - is that sustainable?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

We said it would stay roughly at the same level in Q4, Mark. We've got some installation of new clients in Latin America; we've seen sort of a lack of growth in Europe. Those things are going to sort of temporarily slow the pace of improvement but we think we can continue to get to the goal we've outlined over the longer term and it's really a combination of writing additional clients and seeing continued improvement in our European operation.

Operator

Our next question comes from Chris Giovanni with Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

I wanted to see first if you could talk some about what you're doing in terms of trying to increase pricing in Specialty Property given an increase in both the non-cat and the cat losses.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

In Property we have an extensive process of looking at experience and filing for rate increases where the experience dictates. As we've mentioned in the past we've gotten rate increases, in some cases we filed for rate decreases - all around the experience. The cat we have good line of sight on. It's relate to what the new program looks like and I'll have Chris comment on that in a minute, but what I'd say as I think about the… Everyone, and we're seeing an industry-wide trend of a slight pickup in "other," our feeling today is we're looking at this very closely but this may be some kind of an "other weather-related" event that we believe will correct. But we're keeping an eye on it very closely.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Before we go to Chris I'd just say that that analysis Rob referred to really needs to be state-by-state. That's the way we analyze our experience and the way we adjust pricing. It's really state-specific so that's sort of the level of analysis we do.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Hi, Chris, just a couple comments. I mean it's a little bit early to assess the reinsurance market for 2012. We've begun to investigate a little bit the absence of significant cat claims on the reinsurer side and we think we'll keep pricing stable to maybe slightly higher - that's our early read. We will continue to put the program in place in multiple stages - the first one in January, and then the second one on the direct side in June. We do have a cat bond that we issued in 2009; that matures in 2012 and we're going to investigate our alternatives in the collateralized space on that side. But again, a little bit early. The thing to keep in mind is that while rates online may be stable to only slightly higher we've got to think about the aggregate risk of the portfolio and that continues to grow. So we'll keep you updated as we progress there.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Just one question on wireless and then one on capital: obviously wireless has been a big kind of growth focus for you guys here, and the premium earned pattern is different for that product versus most other areas and solutions. So I wanted to see kind of where you guys are thinking you stand in terms of being at scale in this particular product line; and then when we can expect you to maybe you could look to increase the disclosures to help us think about the returns on this business versus others.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. Wireless, unlike other service contracts, is a product that earns immediately and is on a monthly basis, so we like that aspect of the business. In addition to that, the wireless space, we found that there are other profit pools associated with this business than we had contemplated when we got into just the handheld protection business, so there are other offerings that actually show up not through premiums but through fee income on this business. We have obviously the big installation of Telefonica underway. That will take a number of years to fully realize premium levels because we're after a broad client base that hasn't been exposed to this product. But we are up in a couple of the countries with more anticipated and we think that'll be a slow build over time, but it will earn as we write the business immediately. The key will be to growing the client base.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yeah, I think that's right. I mean the nature of the business, if you add a client and sometimes they tend to be larger; and this is quite a fast-growing market globally and certainly impacts most of the countries we're in. So like in the case of Telefonica you sign the deal, it takes a fair amount of time to install and ramp up and then you start to earn after that. So yeah, I think you'll see a bit of a stair step thing but we still like the overall growth prospects in the market.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay, and then just on capital. I wanted to see if you could maybe help us think about sort of a path for share repurchases here. Obviously your capital position really didn't change despite activity in Q3 on buybacks and dividends and you recognize sort of the attractiveness of this share price. So I guess how do we think about sort of drawing down that excess capital position and then help us frame the leverage ratio which you guys have, which is certainly a lot lower than many of your peers; and how you're thinking about maybe using that to your advantage, either via additional share repurchases or maybe some type of M&A.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Okay. Well first we're going to be in the market in Q4 so we will be buying shares. Second, Chris will give details kind of outlining how the capital position will move during the quarter and I'll just let him walk through that. Chris?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Sure. Let me just give you a reconciliation and then a year-to-date kind of assessment. We ended Q2 with about $650 million of total capital, $400 million of which we view as deployable. We took about $100 million worth of dividends from the operating entities. We returned about $93 million to shareholders; $17 million via shareholder dividends and another $76 million through share repurchase. Net outflows at corporate were about $17 million, the main one being a bond interest payment that we made in August. So that gets you down to the $640 million number. In terms of thinking about it going forward, we feel like we've got about $50 million of earnings available for dividends at the operating segments, so let me give you that reconciliation. Net operating income at the segment level was about $350 million for the first 3 quarters. We've taken about $255 million of dividends. That leaves a balance of $95 million. Remember in Q2, $45 million of the segments' NOI, Property in particular, was used to purchase share deposits so that leaves about $50 million of earnings available for dividends to take up in Q4. So when you think about what we've got as potential dividend capacity from the operating segments you're thinking about Q4 earnings and we'll allow you to put that number in plus $50 million.

In terms of share repurchase, Rob mentioned we will be in the market. We have been in the market in October; as Mike mentioned, another 650,000 or so shares for $24 million. The availability and the visibility around earnings is much clearer now that we're exiting cat season. We will get in Q4, in the next several weeks guidance from the rating agencies, primarily [AFS] about capital requirements for the operating segments. We'll factor all of that in and assess the capital position and then look to again go back into the market and share repurchase. Our preference there has always been [10D51] . We like to be in the market consistently at a measured pace so you can expect us to be buying our shares going forward because we do view them as attractive.

Operator

[Operator Instructions] We'll take our next question from John Nadel with Sterne Agee.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

A couple questions for you: I'm looking at this piece of growth in gross written premiums in domestic and international service contracts and I was hoping maybe you could deconstruct that a little bit for us to help us understand what types of products are really driving that growth right now so that we can get a better sense. I know some products tend to earn premium quicker than others - maybe give us a sense there because we're starting to see some really good growth there and I just want to try to figure out how to translate that into the income statement.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Okay. I think the first thing that's important for everyone to remember is our client acquisition of Lowe's last year was a deal we were very pleased to get but we outlined was going to largely be a reinsure deal at least at the beginning, which many of our deals can be. And then we think as we are able to prove value out, we're able to take more things in if we can demonstrate value to the shareholders. So that is the primary difference in the EFC business between gross written and earned, and there's a little bit of that that goes on in some of our vehicle service contract business. But Lowe's is a big account with a lot of business that isn't going to show net earned premiums. Setting that aside, though, and we can look at the business excluding that, we have seen very nice growth in our written premium and that will translate, and it's one of the reasons we believe we will show that modest premium growth next year despite the fact that we know we have runoff going on both of a few clients and our domestic credit business.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay. And then on the international side?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, the international side we feel quite good about, particularly Latin America. We've had several very nice client additions there and I think most of that international business is going to earn out with… We'll see that next year in earned premiums.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Again, you ramp up a client and then you've got to go through the same cycle of manufacturers' warranties and things like that. But I think Rob's point is that international sales, we've had some nice wins and the pipeline remains really attractive in Latin America.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay, that's sort of the point I'm trying to get at. I guess particularly with the international side with the wireless contract, and I know you guys said that was going to ramp over a longer period of time. I guess I'm just trying to get a sense for when we look at that gross written premium, what's the manufacturers' warranty period behind most of that; what's the pace that we should see that translating into the income statement? That's all.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I think again it's a mix issue, John, but I think that a year is probably the normal manufacturers' warranty so I hope that suits your modeling.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Yeah, it does. Then just 2 more: one is, Mike, just following up on the Health side you mentioned the $60 million to $65 million premium rebate as you estimate it currently. Can you just remind us how to think about the timeframe over which that has to be recorded? Is that over the next 12 months?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yeah, we're recording at sort of over the course of the year, John. The rebate applies to 2011 experience so once you start January 1st of 2011 you start incurring claims, and you earn premiums and the rebate relates to the relative results from that business going forward. The rebate I think is paid in Q3 of next year but we will try to have an accrual for our liability on that, estimated liability at the end of the year.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay, so we should be thinking about one-fourth of that, $15 million, $16 million a quarter from here to the extent that it doesn't change.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, the pace is… You've seen a little variability of that and it will vary because you're looking at how experience develops, and we're also adjusting premiums. One of the changes under healthcare reform is that you have to think about that liability, and our belief is that we would like to have a small or some sort of modest-sized rebate that we would pay, because the way the rules work is that if you go over the MLR target you can't recoup it so you want to have a little bit of cushion there. But you don't want to have a huge rebate because that would imply that your prices are too high, so you're trying to make a balance between those two factors.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay, and then I guess the last one and then I'll jump back in the queue: I appreciate your comments on some of the differences between you and other companies given the specialty niche and that sort of thing. But when we think about new money investment rates, I guess can you give us a sense for where new money rates are for you currently, and how that compares to your overall portfolio yield; and what kind of timeframe do we see? Obviously as we think about your business mix you don't have products with crediting rate mechanisms, that sort of thing. So to the extent that rates do come down I guess we've got to assume that that's coming dollar-for-dollar out of your investment income.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Right, so I think there's a couple of different dimensions to think about this, John. The first relates to pricing, okay - what are you pricing for in your products? Of course we have products that we don't make pricing changes on a daily basis like you might with an annuity or something like that, but we try to reflect once, twice a year changes in the environment for a variety of factors including investment income, our experience, all those things. In many of our products we've made changes; I don't think enough change for the new money rate today but we'll continue to look at that. And that's something that all of our businesses are keenly focused on. Second, we've got some products where it impacts valuation, and the disability reserve discount rate is an example of that where again, we've taken action. Chris, why don't you talk a little bit about the new money rates.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Sure, hi John. There's no doubt that there's a sizable gap between reinvestment yields and the portfolio book yields, and yet depending on the portfolio you're talking about a 150 to 200 basis point gap where what's rolling off versus what we're replacing it with. Our main focus right now is to minimize the turnover in the portfolio, continue to keep the unrealized gain in an unrealized position so that it flows through income and preserve the portfolio's book yield. Now, over time that will migrate towards the reinvestment yield. The problem with estimating that is it's a function of not only portfolio cash flows but operating cash flows, and so depending on which segments grow and what the nature of the duration of the liability stream that we're reinvesting for - again, there's lots of factors coming in there. But what we're not going to do is try and preserve the portfolio book yield by stretching for yield and not being paid for the risk that we're taking. So again, it's hard to estimate what's going to happen. You can think about a 150 to

200 basis point gap in new money versus maturities and coupon flow but a lot of that again is variable. Depending on the day and sometimes the time of day new money yields are moving around.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

We've seen a little bit of that, haven't we?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yeah, we sure have. So again, the goal is to preserve the lion's share of the cash flow as the income is coming off the existing portfolio. To the extent that we can preserve that book yield we feel like we'll be able to mute or minimize the pace of decline over time.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Which is why we try to look at our measures excluding AOCI because we're going to see that come through the income statement.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Oh, absolutely yeah.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I just wanted to quantify Rob's point on the pricing, too, because that… I think all of our businesses have faced the reality that this interest environment is not going away anytime soon so you have to adjust the pricing.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

It might start going away today.

Operator

Our next question comes from Ed Spehar with Bank of America/Merrill Lynch.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Two questions: first, on the Specialty Property, the force placed business, I think that this is around the time when you are particularly going for rate increases. And I'm wondering is there any developments at the state level that are unusual versus what you historically have seen or is it too early to tell?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, on the rate increase side we're reviewing all of our experience and where we think is appropriate we'll take action. One of the things we tend to like to know about is where the cat market is because that'll factor in a little bit into that; but we I'm sure had some things we dealt with, with different insurance departments during the quarter as we do every quarter.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

But the experience analysis process at the state level is still the same as it always has been. We analyze our experience and present our case for whatever adjustment we think is needed.

Edward A. Spehar
BofA Merrill Lynch, Research Division

So there hasn't been any discussion about any change in the approach to reviewing or approving rates?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Not to my knowledge.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Okay. And then just sort of a broad question on Specialty Property: I think you guys had indicated that the reset to normal, whatever "normal" is, has been occurring at a slower pace than what you had anticipated. And I'm wondering again if we look at the market today and some of the trends in the business, is there any change in your view in terms of the glide path to normal?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

There's lots of macroeconomic factors, Ed, that are impacting things. We are focused on what we can control which is the number of loans that we track, and we're pleased that we've been able to add clients or deal with additional portfolios that have come to our clients. So we feel quite good about that. The macro factors, you know, there's so many of them it's very difficult to predict.

Edward A. Spehar
BofA Merrill Lynch, Research Division

I guess specifically if you look at placement rates - you've been thinking those would come down for the last I think 2 years, right?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Correct.

Edward A. Spehar
BofA Merrill Lynch, Research Division

And it hasn't happened yet. If we were to go back 3 months ago would you have thought that we would have seen it in the second half of the year?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, I think at Investor Day we said we thought they'd peak this year. Client movements, there's obviously variability in placement by client and so that can have a big impact on things. How the government gets involved with things, we thought a year or two ago - [HOPE, HAMP] - many of the different programs that have been outlined could change that placement trajectory. They didn't. So what we found, Ed, is it's very difficult to speculate on these things and we really just want to be in a position to respond to our clients.

Operator

Our next question comes from John Hall with Wells Fargo.

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

Just real quickly on the Specialty Property business, again Willis [ph] sort of had a little bit of a discussion about something they called the Loan Protector Program in which they're brokering on force placed business. I was wondering if there's any connection there between sort of the trends they're seeing and whether we can draw any sort of lines to your book of business.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

We've never really seen Willis [ph] as a competitor, John. Remember, we're dealing with mortgage servicers who have a large national presence so we get a mix of risk. I'm conjecturing here because I don't know what it is but I think this is likely somehow agent-related business and just as operating perhaps in a little bit different space than ours.

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

You mentioned in the press release that there's been an increase in ceding I guess associated with the Specialty Property business. It seems a curious trend to observe when banks and the like are under such a bright focus on their dealings around this business. Can you just elaborate a little bit?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Again, this is what our experience was during the quarter. Is there a chance that we'll see that move? We could but we're just reporting out on where the seeded premiums were during Q3 itself, John.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yeah, I think each bank makes its own decision about how it structures its program, and we work with them on however they see fit.

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

Okay. And Rob, at the outset of the call you saw fit to sort of put the spotlight on the rental business that you're doing. Could you just sort of frame out maybe what your aspirations are in that line of business or maybe just give us a sense of the size of the market that you're attacking and perhaps how it's distributed?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

So first I think that we did the acquisition in the space so it was a natural to talk about, John. But second I think it also is a great highlight on our strategy. This was all about when we looked a number of years back at renter's insurance we noticed that most people don't have it. And we kind of conjectured why that was and thought of there is inefficiency in the distribution process. So our whole thought was, was there a different way to come at that market and serve an unmet need of the customer? So when we looked at all of it, from really no business here we've grown this thing to $100 million and we think the market still has quite a room for growth. The first thing when we got into the whole marketplace were property managers - we came up with a value proposition that resonated but they were quite concerned about occupancy rate in their dwellings. As we've had adoption I think they've felt that this product doesn't impact that and they like the product, so we think there's expansion within the property managers themselves; we think there's a general trend of home ownership to rental. I think all these things could work to grow the business. Now, we also need to put in context. We know that the homeowner's business will stabilize as we've talked about, and the premium on that product is considerably higher than it is in the renter's product. Nevertheless that renter's business is a nice niche business. It's profitable and we think we can continue with double-digit growth for the next few years.

Operator

We'll take our next question from Mark Hughes with SunTrust.

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

In the Solutions business, how important was the contribution from auto to the written premium growth in the quarter? And then any sense you can give us of what that number would have been aside from the Lowe's business? I know it's an important contributor but any way to give us a more specific sense of what it would be x that business?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yeah, I don't have the number off the top of my head on the auto, Mark, but I think we've seen nice growth on that; and some of that is because the market has recovered over the last few years to a certain extent. In the depths of the recession there was very little new auto sales and that's recovered, but I don't think we've broken that out specifically.

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

And then aside from Lowe's, any sense of the magnitude there?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Again, we tend not to give client-specific numbers, Mark, so I don't think we've talked about Lowe's specifically. But Lowe's is certainly growing very nicely and definitely contributed to that growth and gross written premiums as Rob said earlier. Remember that it doesn't flow into the net earned because of the reinsured nature of the client.

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

Was Lowe's most of the upside or a minority of the growth?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

It's more than half of the growth in the gross written during the quarter.

Operator

And our final question comes from Jeffrey Schuman with KBW.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

I was just wondering could you give us a little color around your flood insurance - how big that book is and how it has impacted results this year please.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. So I think that you can think about it in a couple of different components. One: we are one of the writers of the NFIP Program. This is a fee-based business where we take no risk. And we are paid a small fee when claims happen - not very sizable compared to where it was but still it's a nice little business. I think of more importance is what is our flood exposure related to our homeowners business or manufactured housing business. We can put this in a couple of different buckets. First, the NFIP Program applies to flood zones that are outlined by the government and if a person drops their NFIP Program our lenders or our servicers require that we provide flood coverage, and we do and we got obviously flood claims during these last storms just like we got traditional wind claims. In addition, the flood program has a maximum of I believe a $250,000 coverage limit. If someone has a home worth more than that, many of our lenders require that we provide gap coverage on flood. Now, you can think about again, that can break into 2 components - ones that allowed their NFIP coverage to expire, we're going to cover all that; others that have an NFIP program and we provide notice that their servicer wants more coverage. Many of those people go and get their coverage on their own; for those that don't we provide a gap coverage. Finally, on our manufactured housing, particularly the business that originated at purchase there is flood coverage provided there as well. Does that help?

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

Yeah, that's a good outline of the program. I guess I'm wondering about size and financial impact.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well certainly, you're talking about size of the program overall? I don't know if we've disclosed that but it's grown some. As you can imagine, just as placement rate has gone up probably people have dropped their NFIP policies I would gather there's a high correlation there although that's more of a conjecture on my part, Jeff, than being able to outline it.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I think the other, I don't know, Jeff, if you're planning that. In the case of Irene recently that storm had a lot of coastal flooding and we did take a fair amount of losses, flood losses from Irene.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. I think we all are at a loss of trying to anticipate that and I just don't think we have much to work off, but maybe that's the way we are at this point. Okay, thank you.

Operator
And thank you. And this concludes Assurant's Q3 2011 call. Please note that a replay will be available as of 11:00 AM. You may now disconnect. Thank you for your participation.