S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

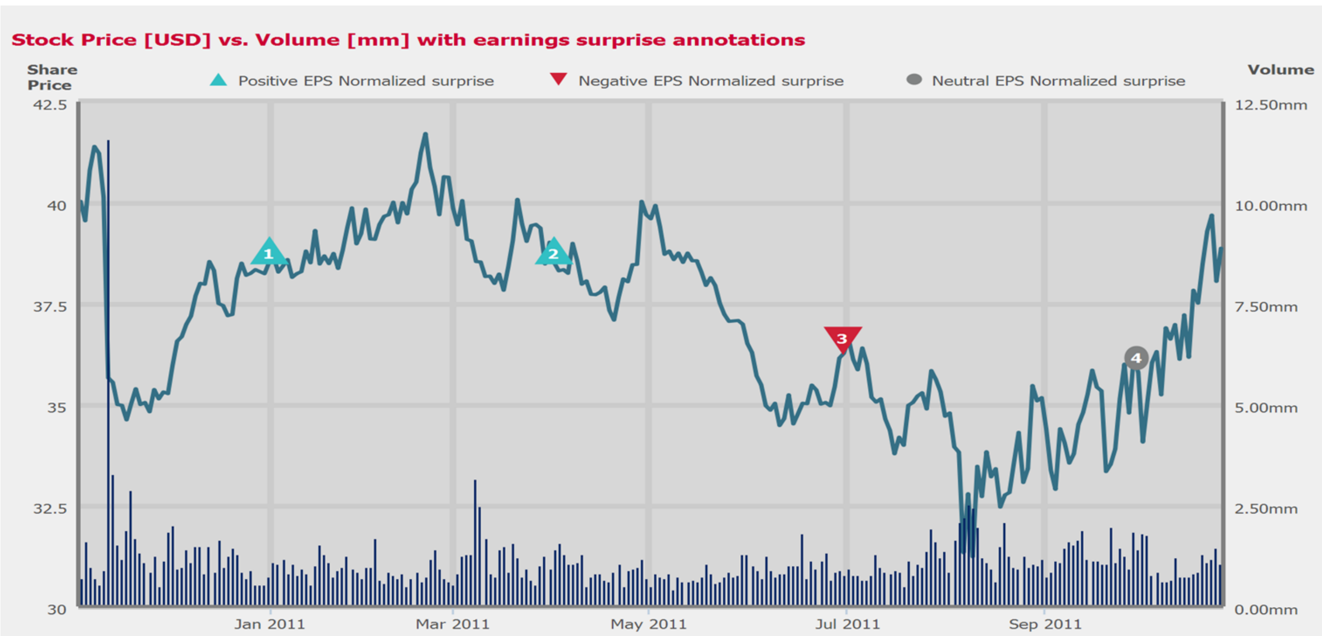
FQ4 2011 Earnings Call Transcripts

Thursday, February 02, 2012 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2011-			-FQ1 2012-	-FY 2011-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.36	1.65	▲21.32	1.38	4.28	4.55
Revenue (mm)	2093.93	2111.53	▲0.84	2059.60	8226.35	8272.80

Currency: USD
Consensus as of Feb-02-2012 12:21 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2010	0.99	1.08	▲9.09 %
FQ1 2011	1.23	1.37	▲11.38 %
FQ2 2011	0.92	0.76	▼(17.39 %)
FQ3 2011	0.79	0.78	●0.00 %

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
BofA Merrill Lynch, Research Division

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

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

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

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

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Presentation

Operator

Good day everyone and welcome to the Assurant Fourth Quarter 2011 Financial Results Conference Call. Today's conference is being recorded. [Operator Instructions] I would now like to turn the conference over to Ms. Melissa Kivett, Senior Vice President, Investor Relations. Please go ahead.

Melissa Kivett
Former Senior Vice President of Business Development and Strategy

Thanks very much and good morning, everyone. We look forward to discussing our fourth quarter and full year 2011 results with you. Joining me for Assurant's conference call are Rob Pollock, our President and Chief Executive Officer, Mike Peninger, our Chief Financial Officer and Chris Pagano, our Chief Investment Officer and Treasurer.

Yesterday afternoon we issued a news release announcing our fourth quarter and full year results. Both the release and corresponding supplemental financial information are available at assurant.com. You may have noticed that our news release now includes some information you have previously received on the call.

Today, we'll focus on the highlights and priorities of each of our businesses and provide more time for Q&A. We'll start today's call with brief remarks from Rob and Mike and Chris participating in the Q&A session.

Some of the statements we make on today's calls may be forward-looking and actual results may differ materially from those projected in these statements. Additional information on factors that could cause actual results to differ materially from those projected can be found in yesterday's news release as well as our SEC reports including our 2010 Form 10-K, available at assurant.com.

Today's call will contain non-GAAP financial measures which we believe are meaningful in evaluating the Company's performance. For more details on these measures, the most comparable GAAP measures and a reconciliation of the 2, please refer to the news release and financial supplemental information posted at assurant.com.

Now, I'll 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 results in the quarter. We have grown in areas we have identified as attractive for our future success. At the same time, we continued to generate substantial free cash flow from operations. This provides us with a strong and flexible capital position. We measure our success with 3 important financial metrics.

First, operating return on equity, excluding accumulated other comprehensive income for AOCI. We reported a 13.8% annualized return during the fourth quarter which increased the full year return to 9.9%.

Second, growth in book value per diluted share excluding AOCI. We saw an increase of about 14% for the year. Third, growth in revenues defined by earned premiums and fee income.

Overall, total revenues declined by about 3% in 2011 compared to 2010. In the quarter, we achieved modest growth on both the year-over-year and sequential comparisons. The areas we have targeted for future growth are linked to broad social and economic trends.

They include the growing importance of wireless mobile devices to consumers. Increases in rental housing versus home ownership, consumer's desire for more choice and greater affordability in their health insurance plans, and employers moving away from payment for benefits to sponsorship of voluntary employee funded products. We achieved growth in each of these areas in 2011 and believe they offer great opportunities for our future.

Now let me make some specific comments about the environment, each of our businesses face. I'll begin with Assurant Solutions. Consumer spending remains sluggish in the US and economic uncertainty persists in Europe. However, revenues from our wireless and service contract offerings, especially in Latin America are expanding. While Solutions expects overall modest premium growth in 2012, we are disappointed that one of our domestic wireless clients will be leaving.

We are in discussions with them concerning the timing. Nonetheless we remain optimistic. We continue to allocate resources to wireless due to its underlying growth trajectory and its intersection with our core capabilities. Turning to Specialty Property, there are fewer mortgage loans originating in the US and foreclosures are projected to increase. Despite these trends, our lender-placed insurance tracking system and product offerings are helping us win business and serve existing clients.

Some of whom are growing their servicing portfolios. As we have communicated, we are not party to the proposed settlement between the State Attorney General and Mortgage Servicers. We understand that the proposed terms of the settlement focused primarily on foreclosure practices and loan modifications.

Insurance is regulated at the state level. We have regular interaction with the different insurance departments. Occasionally, we receive information requests. Last fall, we received an information request, not a subpoena from the New York Department of Financial Services. We are co-operating fully and are virtually complete with a few data items being produced in the next couple of weeks.

Our lender-placed products provide value to consumers. For example, in the third quarter we paid claims of more than $75 million on 10,000 homes that were impacted by Hurricane Irene. This underscores that our product provides value and helps customers in their time of need.

At Assurant Health, we've redesigned many of our products in response to healthcare reforms. We also focus on providing affordability and choices of benefits and providers to our customers. Our new relationship with Aetna Signature Administrators broadens our array of healthcare providers and improves affordability of our major medical products.

At the same time, it improves engagement with our distributors. During 2012, our products will continue to emphasize affordability and choice, even as we continue to implement healthcare reform changes.

Turning next to Assurant employee benefits. Small employers are not growing payrolls. Until that happens, growth in our benefits business will be challenging. Meanwhile, we continue to build our capabilities in the voluntary benefits market and focus on our specialized distribution. To summarize our businesses are well positioned in their targeted markets. Our strong capital position, excellence in risk management and ability to generate free cash provide the foundation for continued progress.

Assurant's track record of adapting to changing markets is well established. Our priorities are clear to make Assurant more efficient to focus on long-term profitable growth and to generate superior returns for our shareholders.

Now, I'll turn it over to Mike.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Thanks, Rob. Now let's discuss a few highlights and priorities for each of our business segments. I'll start with Assurant Solutions. During the year, Solutions grew its international presence particularly in the Latin American wireless space. Client contract renewals remained strong driven by our ability to respond to evolving customer needs.

Preneed's sales increased in 2011 over a strong performance in 2010, as we continued to deepen our relationship with SCI. Total earned premiums and fees were virtually flat with the prior year despite significant tap line pressure caused by previously discussed run-off clients. The major priorities for

Solutions in 2012 are to continue to grow the Wireless business, improve international profitability and drive down expenses in the businesses which are not growing.

Specialty Property's results reflect the continued ability to win new accounts through our superior tracking capabilities and our overall program. Our alignment with market leaders, specifically specialty servicers has allowed us to gain new portfolios which have helped to offset declining number of loans in the overall marketplace. This was evident during the fourth quarter as our clients were awarded new loan portfolios mitigating the overall decrease in the number of tracked loans. As usual, we placed a significant portion of our reinsurance program in January, including our Catastrophe Bonds, we have finalized about 70% of our total program for the year. We will provide a complete update when the program is completed in June.

We are pleased with the integration of the SureDeposit acquisition, which has allowed us to expand our offerings in the multi-family housing market and we remain optimistic about the long-term growth potential of the rental market.

Assurant Health made great progress in 2011. We believe that we are well positioned to successfully navigate additional healthcare reform provisions. A particularly noteworthy change that will affect health's earnings this year is the treatment of loss development relative to year-end reserves.

In 2011, favorable development from 2010 reserves for policies subject to the MLR flowed into our reported earnings. In 2012, any favorable development relative to 2011 reserves will increase CMLR rebate liability instead of flowing into earnings. Our 2011 operating cost dropped significantly as we drive toward a streamlined structure that will allow us to succeed under healthcare reforms.

Sales of health access and supplemental products continue to grow in the fourth quarter. We expect that trend to continue in 2012 and we also expect improvement in our core major medical sales as we implement our new provider network contract with Aetna Signature Administrators.

At Assurant Employee Benefits, the lack of payroll growth remains a significant headwind. In addition, during the fourth quarter we observed an uptick in our disability incidence rates which had remained relatively stable over the past few years. It's too soon to say whether this quarter was an aberration or the start of a trend, but we are carefully reviewing the data and we'll take corrective action if warranted.

Our strategic focus on distribution through key brokers in our expanded offerings continue to improve sales of voluntary products. In addition, savings from expense initiatives at Employee Benefits are being redeployed into targeted growth initiatives.

Moving on to corporate matters, our investment portfolio continued to perform well during the challenging 2011 environment while portfolio yields continue to decline due to low new money rates, a relatively stable liability structure, and conservative investment approach allow us to maintain yield from current investments for as long as possible.

During 2012, we will maintain or risk profile and look for opportunities to invest operating cash flows at attractive risk adjusted returns. In 2012, we expect to return a substantial portion of free cash flow to our shareholders via repurchases and dividends. In order to generate sustained long-term shareholder value, we must also make disciplined investments in our businesses and look for new opportunities to drive profitable growth.
And with that, we can move into the question and answer portion of the call. Operator, first question please.

Question and Answer

Operator

[Operator instructions] We'll have our first question from Mark Finkelstein with Evercore Partners.

A. Mark Finkelstein
Evercore ISI, Research Division

I guess I have a few questions. Firstly, the domestic wireless loss, what was the size of the premium related to that?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

We haven't disclosed that. It's just one of several of our clients Mark.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay, I guess, the overall expectation is for growth in Solutions premium kind of modest growth, would that assume kind of growth internationally and maybe decline domestically, is that the way to think about that?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I think that, the domestic product will continue to run off. I think we would expect probably some modest growth domestically on the service contract side and growth internationally and the outlook takes into account the client we mentioned.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay, fair enough. And then the comment on kind of spending free cash flow on dividends and buybacks, does that assume that, kind of 2012 earnings will kind of be used on that. And then how should we think about the growing excess capital on balance sheet? I mean, the $760 million was certainly larger than I expected it to be at year end particularly given the high buybacks in the fourth quarter. How should we think about that and what -- when would you look at that and say, maybe we start paring that down above and beyond investments for growth as you characterized in your comments as well as in the press release?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, so let me make a few comments here and then I'll turn it over to Chris and Mike and let them add, but first I guess I'd start with the fact that we've got growth going on which it's modest but small amounts means that we are not going to be able to -- we need to leave some capital generation or some of the earnings generation back in the businesses because the rating agency formulas that guide our capital requirements go up a little bit. That being said, I think we are still going to be in that range of being able to dividend out the operating earnings of the different companies. So, there may be a little bit on the margin, but I think that's a fair assumption we can make. Maybe now, I'll turn it over to Chris and he can kind of take you through because I think actually that number went down a little during the year, over the last couple years, maybe it's gone up modestly he can just give you some history on that.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Sure, Mark. Maybe just, maybe I start with a little bit of a reconciliation for the fourth quarter and then talk a little bit about the full year 2011 and then 2012 going forward. During the fourth quarter, we began the fourth quarter with $640 million of holding company capital. We took $270 million of operating dividends, keep in mind when you think about operating dividends relative to net operating income, we made about a $180 million. During the fourth quarter, we disclosed during the third quarter conference call that we felt like we had about $50 million of segment earnings still in the segments ready to be dividended up. So I think about $230 there, the $180 plus the $50, and then again every year we look to dividend up any available capital from the segments to the holding company where it has maximum flexibility. So we found some other pockets of capital that we are able to send up to the holding company. And we paid out a $190 million to shareholders, $17 or so in dividends, $173 in share repurchases, and then there were some corporate inflows of about $40 million that gets to the $760 million for the full year. For the full year, we took about $520 million of dividends from the operating segments. Keep in mind we made NOI, the NOI was $530 million. We spent $45 million of that from property's earnings for the SureDeposit acquisition. And then returned about $600 million in total for the year giving you with some outflows at corporate, getting you to the $760 million number for year-end. Just a couple things around '12, I think the key here is going to be a continuation of the discipline that we've shown and the willingness to return capital to shareholders, which we've shown over the last 2 years. When you think about, since the beginning of 2010, we've returned $1.2 billion to shareholders, $140 million of dividend and $1.60 billion in share repurchases. The real story though is the operating cash flow from the segments. I mean, when you think about returning $1.2 billion over a 2 year period and having your holding company capital position go up from roughly $710 million at year-end 2009 to $760 million year-end 2011, I mean that's in my mind, that's the real story. Going forward we are going to continue to maintain the discipline. I think the capital deployment question is one we ask every quarter, it's a very dynamic process. The answer for the last 8 quarters has been the same, largely driven by strong capital flows and an attractive share price relative to book and that's going to continue to drive our process for 2012.

Operator

We'll go next to Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Just a couple of questions. First on the placement rate and the specialty property business has kept inching higher. We'd assume that that would go down at some point. So what are you seeing? What are your expectations for that and what's been driving it? And the second, if you look at the Employee Benefits margins, excluding the reserve release, it seems like the margins are a lot weaker than where they've been, so if you could talk about what products specifically cause that and just if it is disability then, what you are seeing in terms of loss and recovery trends in the disability business?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure, let's start on the property side on the placement rates, we don't have great insight into what will happen moving forward, but we do know what happened in the last quarter is a client came onboard with a number of loans. It was a flat cancel meaning that all the premium came to us as the servicer took over the portfolio and the placement rate on that portfolio was quite a bit higher than our portfolio in general Jimmy. So that drove a big part of that placement rate. The other thing I guess, I'd say there is obviously, just kind of all the things going on certainly you have a growing number of loans that are seriously delinquent at some point in time we think that will work its way through the pipeline and that will be the catalyst for placement rates declining. On disability side, Mike do you want to comment?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Sure. On disability, Jimmy, I think -- or excuse me on Employee Benefits, I think the driver of the lower results were -- was disability and as we've talked for a number of quarters, the recovery rates at Employee Benefits how quickly we can get claimants back to work have lengthened a little bit. It's been a little more challenging in the difficult economy to do that. Up until the fourth quarter, we had not seen any particular change in incident rates in disability number of new claims and that's where we saw a bit of an uptick in the fourth quarter. And if you think about disability you have to remember it's a sort of a non-credible coverage because of the low incidence rates. So it takes us some time to look at the experience and determine if you are seeing some sort of a pattern or if it's just a temporary aberration. So we have lot of tools and things to look at that and we are dissecting the block and as we determine that there is actually a sustainable trend then we'll have to take corrective action. So that's the story of disability. I think the good news at Employee Benefits is that dental experience has continued to improve and we feel good about the progress in that coverage. And then I think the final piece of benefits is, life insurance where I think we are suffering a little bit quarter-over-quarter in comparison because we had some exceptionally good mortality in 2010. I would say in 2011, good but not spectacularly good, so you just got a little bit of a quarter-over-quarter phenomenon there.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And then just one more the Specialty Property business, as all the enquiries going on, is there any way in which the investigations have affected your business thus far like if you are going out seeking price increases or doing anything else or its affected your ability to price the business appropriately, or you've seen an impact on how you operate in the business?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

No, we haven't Jimmy and, one thing I just want to make sure, I point out is, there have been many misconceptions over this product. We've actually put a white paper up in our web to define how things work which I think can clarify a lot of the statements that have been made that. Certainly we don't believe are true about us.

Operator

And we'll have our next question from Ed Spehar, Bank of America Merrill Lynch.

Edward A. Spehar
BofA Merrill Lynch, Research Division

I guess I'd like to follow up on the question about pricing and Specialty Property, 2 things, first I believe you have said that, when a lot of the rate actions that you look for in a year will occur sometime after the storm season. So I'm wondering if you could give us anything specific on the amount of rate increases which you've asked for what's been accept and is there any change in the acceptance rating change in the level of the questioning that you are getting from regulators regarding rate filings anything that's different specifically on rate filings, because I think you've -- I think this is the time of the year where you'd be doing that? And then I have one follow-up.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure, so we are going through our normal process. I guess if you think about last year's storm season, a little bit different than traditionally just a big hurricane season. We had the tornadoes earlier in the year. The actual filings that take place over the course of years, we've got filings in process, I'd say we are seeing nothing out of the ordinary in terms of how we are moving forward.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Okay and then one follow-up. You talk about in the white paper and I think you said in the past that you believe your rates are among the lower rates in the lender-placed market. Can you give us some sense, I mean first of all, how do you figure that out, is it from state filings? And secondly, could you give us some sense of how much your rates might differ on average from your competitors?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I think we've put out broad comparisons of where we are versus the underlying voluntary carriers Ed, and certainly Gene and his team have done some macro analysis that makes us feel our rates are lower. Anecdotally, I'm sure that, that there can be situations where that might not be the case, because everybody has slightly different rating formulas by geographies and how they act, but it's basically a process where we can look at things in the marketplace sometimes, in situations where there may be flat cancellations we can see the rates they've charged and we know we are cheaper.

Operator

We'll proceed next to Steven Schwartz, Raymond James and Associates.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

If I can, a couple of follow-ups and some of my own. Just on the capital question, holding company capital $760 million, what are you considering these days to be a necessary buffer?

Christopher J. Pagano
Executive VP & Chief Risk Officer

The buffer continues to be the $250 million that is something we established back in early '09 as part of our enterprises management initiative. Keep in mind, again my point earlier, we ask the question on a regular basis the appropriateness in the buffer, the answer has been the same. But going forward that could change one of the things that we've also talked about in the last couple of years is our desire to be above the buffer as we head into the CAT season sort of a seasonal buffer. If you want to think of it that way. But that's a question that we are going to continue ask, but at this point it's still $250 million. So the $760 million has a 5, 10 deployable number to it.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay, but it seems from at least what you are saying Chris is that, you want to spend your operating income. So you wind up at that 5, 10 again I guess is that an accurate statement?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Again, kind of the thought process here is, in general we believe we can get operating earnings out of the segments in the form of dividends up to the holding company. Now operating earnings are a function of what goes transpire during the course of the year. Rob mentioned the fact that if we do see growth we may need to keep some of the earnings back to support that growth at the individual segments. And then again, Mike made the comment about the need to make some disciplined investment. So the deployment priorities also involve the search for the disciplined search for growth and that is an ongoing question that we ask. And at this point, I think what we've seen in the last 2 years, given our criteria around acquisitions that the best use of the deployable capital has been to return it to shareholders and given where the share price has traded relative to book and what we think is a very attractive level, share repurchase has been the dominant form of deployment of capital.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay, moving on, Rob, I think you mentioned the new customer had an extraordinarily high placement rate. Do you have a sense of what the placement rate would have done in Specialty Property without that customer?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Without the client, I don't have that with me. My guess is it was in the range of where it's been probably flat.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay, and I think maybe-- can somebody explain the math, if we have, if the market finally clears out and we start to have a lot of foreclosures, how does the math work? That would take your, all else equal that would take your loans down? Would that also take the placement rate down?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Okay, so maybe a good way to think about this Steven is first, if it's Fannie or Freddie, okay and it moves to an REO status, we are going to lose that, because they don't insure all that business. If it's not a Fannie or Freddie loan, on most of our customers we have an REO program it will move from kind of that individual policy to a bulk policy provided to the owner of the properties. So, you can think about it is, if it's placed today and moves and it's Fannie and Freddie, we are going to lose it. Otherwise, it's conceivable that could remain with us, but it's going to have a shorter tenure because obviously they are going to love to get the property sold.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Right, okay, good. I forgot about the Fannie, Freddie thing. And then just on the -- and just 2 quick ones. The lost customer on the wireless I realize you don't want to say how big, do you know why?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, I think kind of a couple of things. One is we have pricing discipline on how we approach things. I think the other is, they had an integration of some things that are different than what we had to offer and it was evaluated in a holistic sense.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay, and then lastly just on the reinsurance that you just put in, in which you are looking at, what's your thought on rate online? Is it going to be flat? Is it going to be higher?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, I think Chris can probably comment in more detail, I think Steven, we are seeing a slightly harder market and then we've got growth in our portfolio. So I think both of those things are going to drive up the premium a bit. I don't know Chris if you want to amplify on that?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, I think in general, between the January traditional placement and then more importantly the CAT bond we just placed, we've seen and what we think is about a 10% to 15% price increase all other things equal. We feel very good about the fact that we've got 70% place now heading into the June placement. Again that's part of our long-term strategy is to place at multiple points during the year. And again as Mike mentioned, this is not apples-to-apples. This is not a reinsurance we are going to buy, it's gone up versus last year, given the growth and the product. So that will factor in but, and again we'll give you the full breakdown when we complete the June placement in a couple quarters, a couple months rather.

Operator

And we'll proceed next to John Nadel, Sterne Agee.

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

I'll start here. If I look at Specialty Property, you have that line item that shows the amount of premiums that you ceded to your clients and to the governments and then I think if I recall correctly the government piece is the flood program. But I was hoping you could tell us or give us a sense anyway, what the portion is of that line item that ceded to clients, I'm guessing as things shifts here, the servicers are very likely to no longer be able to take on that premium and it's likely to come back to you as we look forward. So I'm just trying to gauge that.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, that's just something we haven't provided John. Obviously, that will all become clear if what you think happens, happens.

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

Okay, no willingness even to give us a sense for 20% or 30% or 40%?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Just not something we've disclosed.

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

Okay. There has also been and I know your white paper addresses this a little bit, but I was hoping maybe you could go into a little bit more detail. I've heard from some who believe that insured values have not come down nearly fast enough relative to home prices nationally and that, as a result, the premiums in dollars not necessarily premium per thousand dollars of coverage. But the premiums in dollars are too high and this is not necessarily just an issue for your business but maybe for home owners' insurance business broadly. Can you just give some commentary around that? Because I think that's a misplaced view, but I'm interested in your opinion.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Sure, I think a couple different things here. The first is, we work off whatever the prior the voluntary carriers coverage amount is makes it, nothing we are passing judgment on, we are just taking the program they have and extending that same amount of structural coverage that was in place in the past. Second, obviously there is a big difference between home prices today and the cost to build or repair when things happen and those are at a different relationship than we've ever seen historically. I think those things over time will move back to more normal levels. The third thing I think with respect to our coverage that often gets locked as well is, we have a dual interest policy. And what that means is, when repairs take place, we are often in a situation when the repair takes place that allows the home owner to stay in the home and we think that's quite important as well, whereas if that was just covering the loan amount. The person who has got the mortgage loan gets covered but that's not enough to take care of all the damage that's been done. That just doesn't seem like the right approach.

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

That's an interesting one. And then, I guess, I almost feel silly asking this question maybe it's a bit of a follow-up to Mark's, given you bought back 12.5% of your shares in 2011, but with over $500 million of excess capital, above your $250 million cushion, I mean is there any really reason the pace of your buybacks couldn't accelerate further versus 2011 and I guess related to that I know the Board, Rob, typically makes a decision on the dividend in the spring but have you given any, at least early consideration to maybe a more significant dividend hike to put it may be truly competitive dividend yield on the stocks?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure, this is all part of that disciplined capital management strategy we talk about John and these are all things that we look at periodically. I think, Chris and his team I think, all you have to do is look at the history, it's very disciplined. It's very oriented toward value and it's very oriented towards the shareholder. Chris, I don't know if there are other things you like to add in there?

Christopher J. Pagano
Executive VP & Chief Risk Officer

I guess the only other thing I'd point out is, our focus on consistency. Again doing things the way we've done them quarter-after-quarter, year-after-year using the 10b5-1 program to repurchase stock being in the market not doing accelerated, because that suggests some sort of point in time view of ours. But the key being to where there is deployable capital that the best use is to give it back to shareholders and that' what we are going to do. The discussion with the board again consistency every year during the second quarter, we have that discussion and we are going to do that again this year. So, I mean, and the other point I want to make is, this is a dynamic process, okay. This is not something that we don't just automatically ask the questions, the same questions, quarter-in quarter-out. We happen to be coming up with the same answers in the last 8 quarters and that's the actions that we've been taking.

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

Okay. And then, last one just a quick one in Benefits. I think your press release mentioned that you lost about $40 million in premiums in the January 1 renewal on 2 different cases. Just the interest is, if you could give us a sense for how competitive that was, if you were looking for a rate increase of let's say X, how much of a discount did that business leave you for relative to X?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, it wasn't quite – that wasn't quite the issue on these John and it was a client that was having relatively poor experience and we were essentially trying to price correctly for the experience that was sort of a loss ratio driven thing. The other one was one of the turnkey reinsurance clients that we've talked about in the BRMS business. That client decided to essentially change its program and retain more of the risk themselves. So they are recapturing the thing, there wasn't any dissatisfaction, and in fact they thought we were doing a fine job for them.

Operator

We'll go next to Mark Hughes, SunTrust.

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

The voluntary benefits, you say that the success, you had a lot of success in new sales. How big is that of your total sales within benefits and how quickly did it grow?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

It accounts for roughly I think 50% of our sales Mark, and that's grown steadily and that's where Employee Benefits is investing their resources and as I think I said in my comments that they are taking some of the expense savings there and redeploying them into voluntary investments that are adding to distribution. So the pace of the voluntary growth we feel pleased with.

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

Right, and then you've obviously had a lot of success taking share in Specialty Property. How is your visibility or how do you feel about the opportunities ahead to continue to take share was there something special about the last year or 2 that allows you to capture more or conditions just is there good going forward?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I mean, we think we have a better mousetrap here. That being said, there is one client we are not going to get and that represents a large share of the market. We think everything else is a fair game.

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

And then the disability claims anything you can say about end-markets, was that's really broad based in terms of types of customers that your serving types of policy holders in terms of industry as distribution?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I think it was fairly, -- as I said earlier it's very difficult to look at one quarter of disability experience and draw anything definitive. We didn't see any particularly segment of the block. I would say that there were a bit a higher than normal large claims this quarter sometimes in disability you can get some variants in the reserves on a high benefit claim can be quite large and so you can get a little bit of volatility introduced there. But nothing in terms of a particular segment of the block.

Operator

We'll go next to Chris Giovanni, Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

A question on health. In the outlook you pointed to kind of reduction in expenses again in 2012 but 4Q it looked like it was the first time, we hadn't seen sort of a sequential decline in expenses. So wondering first if there was anything seasonal in 4Q that drove the uptick? And then next, what type of expense saves further do you think you can take out?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, a couple things. One of the things I just pointed out is, we have both short-term and long-term incentive plans that get trued up at the end of the year. We finished stronger than we were thinking at the end of the 3 quarters and as a result, our accruals went up and that's pretty much across the board. Okay, so that's a little anomaly in the fourth quarter expenses. The health people themselves tremendously focused on continued simplification. So they have efforts underway to reduce systems to look at anything that isn't customer facing and ask questions of why do we have these things? We've taken out a lot. I think they see opportunities for more, but it's harder. We have some things to deal with, with healthcare reform we've mentioned. One of the biggest of which is just dealing with the addition of holding requirements associated with ICD 10 I guess or I may have my -- wrong.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

That's right.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Fundamentally, the good news is that, a small piece of that we are actually going to be able to count as quality improvement on MLR that was again kind of a new news thing in the fourth quarter. So, again they are very focused on the expense side. They are very focused on providing affordability and choice to customers and we are hopeful we are going to see sales continue to increase in this business.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

And I would just add, Chris, I think Rob sort of commented on this, but certainly all, the easy to get or near term expense savings have been attained at Health. They've done a great job. What we are working on now is really that hard detailed simplification of the internal process, simplification of the systems environment and all of that is just detailed and it takes time, they are really on a great track there. So they do feel they can get more.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay, and then back in 2010 you guys made the decision to stay in the Health business despite sort of what was going on with healthcare reform and results have certainly been better than many expected. So do you think the success that you are having now makes this business easier to sell or should we kind of take the Aetna contract as a sign that you guys are in this business for the long run?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well again, we start all our assessments around 2 fundamental themes. Is it a Specialty business and can we get to attractive returns for our shareholders. I'd say on both those counts we are feeling quite good. At the progress we've made, we are not to the returns we want yet, but we've made quite a bit of progress. We think that the Aetna deal is a great deal for us around a number of different dimensions and strengthens our position not only with end-consumers but also with our distribution partners. So, we are very encouraged on how we are moving forward in this business.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay, and then just, sorry if you addressed this already. But I think you had met with Best towards the end of the quarter and in the past it's been you've been able to dividend up 100% of the earnings. Has that changed at all as you move into 2012?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

The fourth quarter, Best performed and completed its annual review in the fourth quarter. Very pleased with the results. Keep in mind, agency discussions are not once a year or even once a quarter. They occur on a regular basis. I think to the extent that rating agency views evolve, we like to participate in those discussions, react accordingly. Again, comes back to capitalizing the operating entities appropriately given, not only the rating agency's views but our views which are a byproduct of our risk management approach. So, right now, as of today we don't anticipate any changes but again it's early in the year, we are going to file our statutory returns and make some determinations around ordinary dividend capacity et cetera. But, it's an ongoing discussion and one that we participate actively in, and have very good partnerships we think with the rating agencies.

Operator

We'll go next to Jeffrey Schuman, Keefe, Bruyette & Woods.

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

Few questions on Specialty Property. First of all we look at loans track, down about 2% year-over-year, can you give us some sense of the interplay between how much the market moved and how much your share moved?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, a couple of things. The first is that the loans that are -- we have are reported to us by the servicers and we found that to be a rather fluid number. So it's not like we have a perfect inventory on these things all the time Jeff. That being said, we know that we added a couple of clients during the year. And the additions, there was a number of loans we thought we are going to take over and then there was a number we actually took over which reflects just that pay off, or foreclosure, all those dynamics going on in the market. Maybe a good way to think about it is, what's happening to the overall inventory. We think that's gone down by several million loans and we think we've gone down by a smaller percentage.

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

Okay, that's helpful. Next on the REO, if you look at the REO penetration of gross written, it's been coming down a fair amount, is that a reflection of less new flows into REO or is it more a reflection of stuff coming out the back side of REO?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, you mentioned 2 and I think there is a third. So those are 2 of the dynamics, the third is some of our clients have moved to monthly programs on REO versus annualized programs. So that will have -- not an impact on our earned premium but certainly on our written premium. So, all those factors are in play and off the top of my head I just don't have those relative differences.

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

Okay. And then lastly, back to the regulatory issue. I think if I characterize, some of your comments up front Rob and maybe this isn't fair or it's over simple and correct me, but I think part of what you are saying is that the regulatory focus is largely on the servicers. It's not on the insurers and in fact you are really not facing issues with your insurance regulators. And therefore, perhaps you are not substantially at risk from this process. But I wonder if that kind of oversimplifies because I thought one of the issues that was on the table with the servicers was the idea that perhaps they should be required to make much greater efforts to maintain the original voluntary coverages that we're in place in order to help kind of manage the cost of the coverage. Is that, is your understanding that issue was on the table and if so, I mean, isn't that's something that indirectly would impact you?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

A couple of points. First is, I think your characterization is right for Assurant, I don't hope to comment on where any other insurers are in the process, because I don't really know. So I can only comment related to us. Second, I think, we've done a lot to try and inform of all the efforts we go through to maintain coverage. That's a big part of the service we provide and we provided to our servicers. We start with somewhere during the year like 13% of all mortgage holders we get some notification that there has been insurance may not be remaining in force. And through our efforts, we are able to reduce that down to the 2% range. I think that's a great value to the servicers et cetera as part of that process. So number one thing we try and do is, do exactly what you said, keep that voluntary coverage in place. It's only when none of that happens that we turn to placing the policy.

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

Okay, that's helpful. I probably didn't appreciate that as well as I should have.

Operator

We'll have a follow-up from Mark Finkelstein with Evercore Partners.

A. Mark Finkelstein
Evercore ISI, Research Division

Maybe just taking you back a little basic, on health.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure.

A. Mark Finkelstein
Evercore ISI, Research Division

Even if I adjust for the rebate in the quarter and knowing that the favorable reserve developments should be much lighter as that's largely played out. It was still a huge quarter and to a prior question expenses weren't really kind of the driver. What exactly drove the, the certainly the very large health number relative to my own expectations and I assume others?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I think that there was -- I'm just trying to think about a number of factors. I mean, I think Health has continued to monitor their experience. They have continued to drive down the expenses. There wasn't anything dramatic aside from the rebate, the change in the rebate Mark that I'm thinking of.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I can't either. Obviously, all the issues that are going on there we're selling some more business. That's a positive for us that allows us to spread over that broader base of things, but I just think it's the execution of their strategy coming to fruition, yes.

A. Mark Finkelstein
Evercore ISI, Research Division

Are you still waiting on additional states to decide on the transitional provisions? And if so, how big?

Christopher J. Pagano
Executive VP & Chief Risk Officer

I think there are a few still outstanding. Most of them have been decided, I think there are a handful out there Mark that we're still waiting to hear on. And I think at least…

Robert B. Pollock
Former Chief Executive Officer and Executive Director

But there is a number that we have also heard are not going to be granted. So the pool has shrunk for those who might be granted relief.

A. Mark Finkelstein
Evercore ISI, Research Division

Right. Okay and then actually just one question on Specialty Property as a follow-up. I was trying to kind of square this a little bit. The guidance for 2012 suggested some kind of deterioration in loss ratio some deterioration in expense ratio. But it was largely attributed to product diversification. It wasn't attributed to reinsurance pricing, kind of rates. But then in Chris's comments, you talked about reinsurance pricing going up, 10% to 15% and I'm trying to think about, does that suggest that pricing on the core product is going up to meet that reinsurance pricing? Does it mean we are kind of reducing our kind of outlays for reinsurance and therefore kind of maybe the risk is going up a little bit, like how do I kind of square those comments?

Michael John Peninger

Former Chief Financial Officer and Executive Vice President

Yes, it's complicated because remember, for instance the reinsurance program we just placed the CAT bonds. We had the CAT bond that was rolling off the market that was in place when that CAT bond was brought to market was a tighter market than we are experiencing today. So we are going to get some benefit from that. I think that Chris provided some general comments, but it depends on the layers we are operating in where we choose to participate or not participate in the tower and we still have a piece of the program to yet buy where we said our deductible is another important consideration. So I think the best time to look at all that Mark is, when we have the final program in place in June and you'll be able to see the amount of coverage we bought which is obviously more as we have more exposure in the CAT prone areas. And I think you'll be able to have the best sense of what that means overall. Our process is also on the rate is asking for rate increases at the state levels. We try and take that into account. That can be a little bit lag sometimes as well.

Operator

We'll have our last question from John Nadel, Sterne Agee.

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

Just a quick follow up and it's sort of along the same lines as Mark did again. I'm just looking at the outlook commentary and thinking about the Specialty Property and earned premiums being relatively flat year-over-year. It's just when you break down Specialty Property obviously you got the creditor placed, you get the manufactured housing and you got the other which is that slew of renters and other products. Can you just give us a sense for, as you look out to 2012, what your general expectations are for each of those pieces that get you to flat? Is it still, we are still looking for Specialty Property to shrink or no, I mean for a creditor placed to shrink or no?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Maybe, but it just be a small amount. It's all going to be a function John of the placement rates.

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

Yes. And obviously that just had a nice lift with the new loans you've brought on right, so?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

We believe so.

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

Yes. So that I mean, that's probably, I mean, is it fair to assume that had that particular account or loan package, had that particular loan package not come on all else equal we'd be looking at a faster rate of decline, correct?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, if you go back again to our Investor Day presentation, we presented an outlook John, it's lengthening a bit or going more slowly than we might have put out there. But that trend I think is inevitable. It's really a question of pacing in the lender place and where we are really seeing the -- expecting the growth is on that multi-family housing business. We've got SureDeposit is added to offering there and that's where we are really expecting to see growth that will help offset this pace of the decline.

John Matthew Nadel

Sterne Agee & Leach Inc., Research Division

Okay and then just, I appreciate that, and then just one more quick follow-up on capital or capital levels or whatever. As of the end of the year what do you estimate your incremental debt capacity is right now?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well I think it's still about, the $350 million we've talked about if you look at the debt-to-cap ratio that's been pretty consistent over the full year. There we are going to be opportunistic. It is another source and another source of financial flexibility for us. But then I think about the interest rate environment and kind of recent commentary from the Fed in terms of what they are going to do and we want to be very careful about adding capacity when there is no imminent need and we do have such strong operating cash flows and a large holding company capital position.

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

I can think of an imminent need.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Thanks, John. Thanks for joining us today. We look forward to updating you on our progress next quarter.

Operator
This concludes Assurant's fourth quarter 2011 conference call. Please note a replay will be available as of 11:00 AM. Thank you for your participation. You may now disconnect.