S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

FQ2 2015 Earnings Call Transcripts

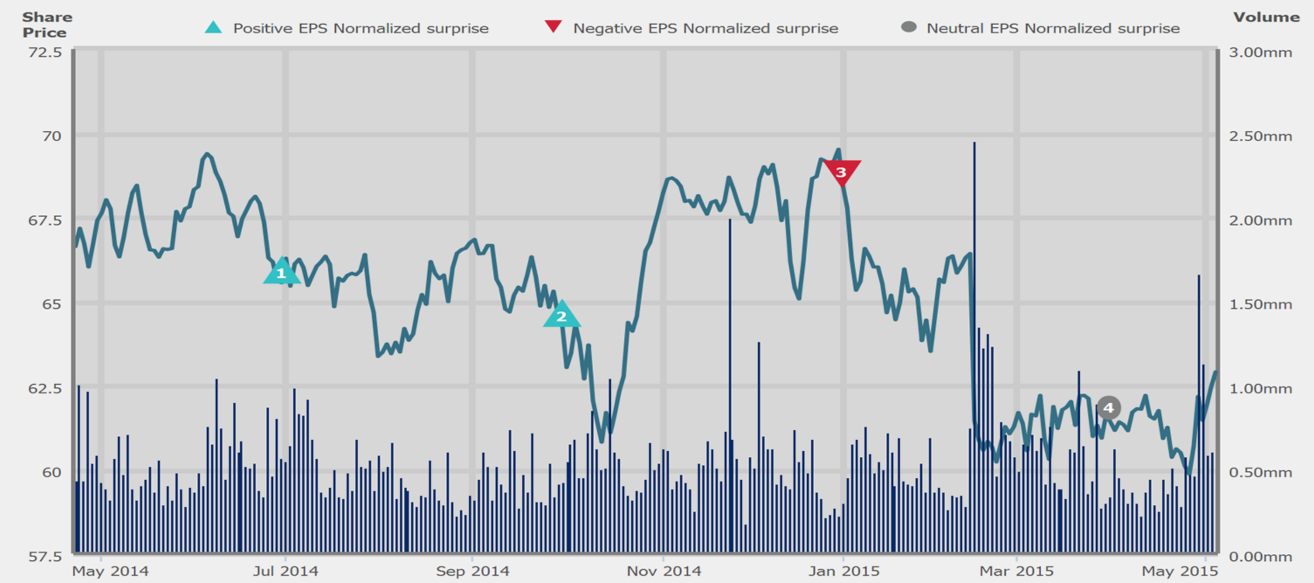
Wednesday, July 29, 2015 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.60	2.07	▲29.38	1.48	6.40	6.81
Revenue (mm)	2123.17	2060.45	▼(2.95 %)	2050.64	8444.44	7851.97

Currency: USD

Consensus as of Jul-29-2015 12:02 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	1.54	1.62	▲1 5.19 %
FQ3 2014	1.61	1.82	▲2 13.04 %
FQ4 2014	1.66	0.87	▼3 (47.59 %)
FQ1 2015	0.63	0.63	●4 0.00 %

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Call Participants

EXECUTIVES

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Francesca Luthi
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Presentation

Operator

Welcome to Assurant's Second Quarter 2015 Earnings Conference Call and Webcast. [Operator Instructions]

It is now my pleasure to turn the floor over to Francesca Luthi, Senior Vice President, Investor Relations, Marketing and Communication. You may begin.

Francesca Luthi
Chief Communication & Marketing Officer and Executive Vice President

Thank you, Matthew, and good morning, everyone. We look forward to discussing our second quarter 2015 results with you today. Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; and Chris Pagano, our Chief Financial Officer and Treasurer.

Yesterday afternoon, we issued a news release announcing our second quarter 2015 results. The release and corresponding financial supplement are available at assurant.com.

As noted in our news release, beginning with the second quarter, Assurant is revising its presentation of results to reflect our focus on housing and lifestyle, specialty protection products and services. As we wind down our major medical operations, results for Assurant Health are now included only net income and are no longer reflected in net operating income.

We will continue to report Assurant Employee Benefits under operating results as we pursue a sale of that business.

Certain prior period results in the financial supplement and in the news release have been revised to conform to the new presentation. We believe these changes provide a more meaningful presentation of quarterly results and better reflect our strategic focus.

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

We'll begin our call this morning with brief remarks from Alan and Chris before moving to Q&A. Some of the statements made today 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 in our SEC reports, including our 2014 Form 10-K, first quarter and upcoming second quarter Form 10-Q. Now I'll turn the call over to Alan.

Alan B. Colberg
Chief Executive Officer, President and Director

Thanks, Francesca, and good morning, everyone. We are pleased with our overall performance in the second quarter. We're moving forward with our strategic realignment as we position Assurant for long-term profitable growth.

During the quarter, our momentum continued in housing and lifestyle. We grew market share, added client partnerships and expanded our products and services globally. At Assurant Solutions, we strengthened our lifestyle offerings in Connected Living, which includes service contracts in mobile. We extended our partnership with a leading U.S. mobile carrier to offer a buyer's remorse program. We will leverage our repair and logistics expertise to refurbish the unwanted devices and resell them through our global distribution channels, creating value for consumers, our clients and Assurant. Worldwide, mobile currently accounts for approximately 25% of Solutions revenue and more than 1/3 of its profitability.

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We've begun working with eBay to develop and launch an extended service contract program for new and used auto parts and accessories in the U.S. This new agreement builds on our long history in the auto warranty sector and leverages our expertise supporting online retailers.

These partnerships reinforce our ability to offer solutions to customers across multiple distribution channels. This is another example of redeploying our capabilities into adjacent specialty areas where we can win.

At Assurant Specialty Property, we are transforming our lender-placed platform to increase efficiency while also maintaining exceptional client service. At the same time, our mortgage solutions business delivered strong organic growth as we integrated key functions across property preservation and appraisal management to provide additional value for our clients. We also broadened our multifamily housing capabilities through the acquisition of a receivables management company.

During the quarter, we made progress with respect to the sale of Assurant Employee Benefits. Market interest continues to confirm our view that Employee Benefits is a valuable company. The process is moving ahead as planned, and we expect to announce the sale by the end of the third quarter.

The wind down of Assurant Health continues and we're on track with all notification and actions so that we can substantially exit the health market by the end of 2016. Following our announcement last month, we stopped issuing new major medical policies. We also reached an agreement in principle to sell our supplemental and self-funded product lines to National General.

Now let me offer some highlights from our second quarter results, and then Chris will provide additional details.

Annualized operating ROE, excluding AOCI, was 13.3% year-to-date. As noted, this excludes Health's results. Also, adjusting for the sale of American Reliable, Assurant's total revenue was roughly level with second quarter of 2014. As anticipated, the clients in lender-placed were offset by increases in mobile and mortgage solutions fee income.

We are pleased that targeted growth areas in Solutions and Property are up 14% and now account for 26% of the revenue for these segments as well as a significant portion of profits. We'll continue to align resources toward our best opportunities and adjacent areas.

As we sharpened our strategic focus, Solutions and Specialty Property again generated strong cash flow in the second quarter. This allowed us to return a $124 million to shareholders through buybacks and dividends, invest in our specialty businesses and capitalize health to account for certain exit-related costs.

At the end of the quarter, we had $460 million of corporate capital at the holding company. We believe that capital released during the next 18 months from the Health wind-down and the sale of Employee Benefits will provide us with significant flexibility. We will deploy this capital to build a stronger Assurant and create additional long-term value for shareholders.

Our second quarter results reinforced our strategic decision to build on our strengths in housing and lifestyle. Our sharper focus allows us to leverage our track record of sustained industry leadership to maximize opportunities for profitable global growth. We'll continue to extend beyond insurance to offer integrated services related to consumer risk events. This includes growing our fee-based businesses that require less capital and generate more predictable earnings and cash flow over time. As always, we're committed to disciplined capital deployment through investments in the business and return of capital to shareholders.

We believe these actions will allow us to realize our aspirations of generating top quartile shareholder returns. We're excited about the future and encouraged by our progress and momentum.

And now I'll turn to Chris who will review results for the quarter and our outlook for 2015 in more detail. Chris?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

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Thanks, Alan. I'll start with Solutions where core results were in line with our expectations. Excluding a net tax benefit, segment earnings totaled $52 million for the quarter. The $7 million year-over-year decline was primarily attributable to the previously disclosed loss of a tablet program in May and less income from mobile carrier marketing programs.

International results were negatively affected by foreign exchange pressures and higher legal expenses related to a review of payment protection policies issued in the U.K. during 2003 and 2004.

Turning to pre-need. The business benefited from lower mortality as well as continued growth from our partnership with SCI. Overall, revenue at Solutions was flat compared to second quarter of last year, consistent with our outlook for 2015.

The client loss noted earlier, foreign exchange volatility and expected declines at certain brick-and-mortar retailers offset growth in vehicle service contracts and other mobile programs.

Looking ahead, we are encouraged by sales momentum in Connected Living, vehicle service contracts and pre-need, which we believe will generate profitable growth in future years.

Now let's turn to Specialty Property, which had a very strong quarter exceeding our expectations. Net operating income increased $19 million to $87 million, driven by lower claims activity. The loss ratio improved 840 basis points year-over-year due to fewer reportable catastrophes and reduced frequency and severity of non-catastrophe claims. As a reminder, the second quarter of 2014 included $22 million of adverse reserve development related to severe winter weather.

Adjusting for the sale of American Reliable, revenues decreased 2% as declines in lender-placed were nearly offset by strong growth in targeted areas. We continue to capture market share in mortgage solutions while expanding our service capabilities in multi-family housing. We will continue to diversify into adjacent higher-margin fee-based businesses.

Moving to expenses. Our reported expense ratio increased 400 basis points year-over-year to approximately 50%. 2/3 of the increase was due to a greater proportion of fee-based business. Excluding mortgage solutions, our insurance expense ratio increased by only 100 basis points to roughly 43%. This was driven mainly by lower insurance premiums. We've also made additional investments in our lender-placed platform to improve efficiencies long term. We are on track to generate net savings in the second half of 2015 with more to come next year. These initiatives will help us maintain an insurance expense ratio in the mid-40s despite declining lender-placed revenue.

Earlier in the month, we finalized our 2015 Catastrophe Reinsurance Program, purchasing $1.3 billion of coverage. We were pleased to complete our program on attractive terms while also lowering our retention nearly 20% to $155 million. This comprehensive protection is an important part of our global risk management strategy.

For 2015, we expect properties revenue and earnings to decline due to the divestiture of American Reliable and the ongoing normalization of lender-placed. As the inventory of seriously delinquent loans decreases, placement rates will continue to decline toward our forecasted range of 1.8% to 2.1% in the next few years.

Profitable growth within multi-family housing and mortgage solutions, along with international property expansion, will enable Specialty Property to maintain attractive returns long term.

Turning to Employee Benefits, earnings in the quarter decreased by $3 million to $11 million due to less favorable life and disability results compared to second quarter 2014. While within the normal range of volatility, we saw a modest increase in disability incidents and an increase in life claims. Dental experience in the quarter remained favorable.

Net earned premiums and fee income increased 3%. Our strong voluntary platform, including dental, more than offset declines in employer-paid products. We were pleased that persistency and sales remained robust.

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The Assurant Health runoff operations reported a net loss of $124 million for the second quarter, including $107 million of exit-related charges. These charges are mainly comprised of premium deficiency reserves, asset impairments and severance.

Premium deficiency reserves totaled $80 million after tax and reflect our view that future premiums and current claims reserves for major medical will be inadequate to cover future claims and direct expenses. The amount recorded in the quarter was slightly above our initial range to account for additional expenses through the wind-down.

At the end of the second quarter, we received final notice from the Centers for Medicare and Medicaid Services, CMS, regarding risk mitigation payments for 2014 ACA policies. We were pleased that the final amounts for reinsurance and the risk adjustment transfer were slightly better than March 31 estimates. This resulted in a net benefit of $9 million booked in the quarter. CMS confirmed that insurance carriers should receive payments during the third and fourth quarters. We will continue to monitor for any changes to that timetable.

We applied the lessons learned from 2014 and updated industry data to our 2015 estimation process. In the quarter, we accrued $117 million under the risk mitigation programs for 2015 effective policies. This included $68 million for reinsurance and $49 million for the risk adjustment. As of June 30, recoverables for 2015 policies under both programs totaled $237 million. Consistent with last quarter, we did not accrue any net recoverables for the risk corridors.

Going forward, we expect to incur an additional $80 million to $95 million of exit costs primarily related to severance. We will continue to refine our estimates for exit-related costs and the premium deficiency reserves based on actual loss experience, recoverables under the ACA risk mitigation programs and timing of expense reductions. Results at Health will also reflect certain overhead expenses that cannot be included in the premium deficiency reserve calculation.

Moving to Corporate, we ended June with $210 million of deployable capital. Total segment infusions in the second quarter, net of dividends, were $70 million as we funded capital needs at Health primarily from operating cash flow. We infused $215 million into Health to account for estimated total exit-related costs through the wind-down period, which are recognized immediately under statutory accounting. We believe that this will largely satisfy the capital needs during Health's runoff, subject to any significant changes in our assumptions for claims experience and exit-related expenses. We expect capital supporting Health will be returned to the holding company in the form of dividends in late 2016, subject to regulatory approval.

For full year 2015, we anticipate dividends from the operating segments, excluding Health, to exceed segment operating earnings, subject to growth and rating agency requirements. During the second quarter, we returned $22 million to shareholders in the form of dividends and we repurchased $102 million worth of stock. Through July 24, we repurchased an additional 257,000 shares for $18 million. Year-to-date, this represents 5% of total shares outstanding.

We continue to believe the stock is attractively priced. The proceeds from the sale of Employee Benefits and capital return from the Health wind-down will provide additional flexibility to deploy capital prudently through a combination of share buybacks, common stock dividends and investments in housing and lifestyle.

The Corporate loss for the quarter declined to $9 million due to lower employee-related benefit expenses and reduction in tax liabilities, which will reverse during the second half of the year.

The investment portfolio continues to perform well. Real estate joint venture partnerships generated $13 million of investment income in the quarter spread across the businesses.

Our focus for the remainder of 2015 is to position the company for profitable growth while successfully managing the exit of the health insurance market and the sale of Benefits. We believe all of the actions underway are critical to building a stronger company for the future.
And with that, operator, please open the call for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question is from Seth Weiss with Bank of America Merrill Lynch.

Seth M. Weiss
BofA Merrill Lynch, Research Division

My question is surrounding capital in Health and just want to make sure I'm thinking about this the right way. I believe from a statutory basis, you have about $340 million of capital in Health. Is that the right the number?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

That's correct, yes.

Seth M. Weiss
BofA Merrill Lynch, Research Division

And if we think about needs at Health, the $80 million to $95 million of severance cost that you commented in the prepared remarks, is that only on a GAAP basis from a stat basis if your deficiency reserves and all other estimates are correct? Should we think about all that $340 million being distributable at the end of 2016?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

So just a couple of clarifications. So in the $215 million that we infused into Health in the second quarter, that includes all severance, additional indirect expenses and then the expenses that are also included are in the GAAP calculations. So stat requires that we pre-fund a greater portion of the exit-related costs than does GAAP. In terms of the -- how we think about it going forward, it's early. We've got some line of sight around claims experience, but in the first half of the year, we're just starting to get some more information around the estimates on the reinsurance recoverables and the risk adjuster. We think we've largely funded all of the costs related to the exit, all the losses related to the exit, but we'll know more as we go out -- go throughout the year. But then, eventually we do expect to get the majority of the capital out of Health in the form of operating dividends at the end of 2016.

Seth M. Weiss
BofA Merrill Lynch, Research Division

And then, maybe a broader question about capital and the use of capital. And I appreciate that you've been hesitant to talk about deployment of capital in terms of not getting the cart before the horse. But with your commentary, benefits likely being sold by the end of the third quarter and having a more well-contained health number, could you tell us what's on the table in terms of capital deployment? I mean, there are options such as special dividends or increase buyback available. Just trying to get a sense if there will be substantial capital coming on in the next 3 to 18 months.

Alan B. Colberg
Chief Executive Officer, President and Director

Okay, thanks. Let me clarify just the timing of Benefits. What we said is we expect to announce the sale by the end of the third quarter. That closing would be sometime in early '16, just on the timing of Benefits. With the capital management, I think that thing that I would say today, is we remain committed to that combination of balanced capital deployment where we return capital to shareholders through various forms, buybacks and dividends as well as invest in good growth opportunities in our core franchise of housing and lifestyle. I think you've seen a great track record over the last few years of buyback and including even this year with 5% of the stock buyback year-to-date. Any other consideration, things like a

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special dividend, that would be a board decision. But we are continuing to focus on really the actions that we're taking have repositioned Assurant into a much more attractive set of businesses going forward. We think that will create significant shareholder value combined with our combination of capital management, which we're going to continue.

Operator

Your next question comes from the line of Mark Hughes with SunTrust.

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

Could you talk about the developing auto partnership with eBay? Is that a template maybe that you'll be able to apply elsewhere? And then just more broadly, of Solutions sales backlog, how are things building as we -- you've given a pretty good guidance for this year, but how should we think about the top line as we transition into 2016?

Alan B. Colberg
Chief Executive Officer, President and Director

Sure. I mean, probably the way to think about Solutions is we are pursuing a strategy of creating client partnerships independent almost of the channel of the client. So we work with carriers. We work with OEMs. We work with retailers. Increasingly, we work with e-retailers. And what you see with the partnership that we announced with eBay, which we're still in the process of launching, so results will be later, is really that ability to work with large client partners across a variety of channels and that's really the hallmark of what Solutions does well, creating value for the consumer and for the client. The pipeline is robust for Solutions. The sales cycle is long, and we will continue to announce new partnerships as appropriate. But I think what you've seen with Solutions is we made a commitment to investors a couple of years ago that we expect over a period of time an average annual increase in NOI of 10%, obviously, with variability year-to-year. We still believe that's the right way to think about Solutions prospects going forward.

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

And then on the Specialty Property business, I think you might have touched on this, how much of the revenue is coming from non-forced placed business? I think you might have said 26%, but then how much is earnings of that non-forced placed? And then what kind of growth rate on that chunk of the business?

Alan B. Colberg
Chief Executive Officer, President and Director

Yes, let me offer some overall comments on property and then Chris, I'll turn it to you to go into a little more detail. The way to think about our Property business is our business is in a rotation where lender-placed is normalizing as we've been talking about and predicting going back to 2011, and we have been investing in our growth opportunities, which are very attractive, including multi-family housing and more recently, mortgage solutions. So that rotation is well underway. Chris, what would you add?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Yes, I mean, I guess to answer the question of revenue, roughly 30% of the revenue is non-lender-placed and that includes multi-family housing and mortgage solutions. Remember it's -- and also the flood business. Again, as Alan points out, the normalization of lender-placed is going to throw off additional capital above segment operating earnings that we're going to deploy in other areas within housing and lifestyle. So we do expect to be able to grow that business -- grow the non-lender-placed business within Property through organically and then potentially, through strategic M&A.

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

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And what would be the kind of the growth rate on that 30% chunk?

Alan B. Colberg
Chief Executive Officer, President and Director

I mean, it's been -- I'm trying to remember what exactly we've disclosed. We disclosed that multi-family has grown double digits for quite a period of time now. And mortgage solutions, if you recall, in the last couple of earnings calls, we increased our estimate. For this year, originally, we had it at $250 million of revenue. This year, we raised it to $300 million on a prior earnings call. So there's good growth in both of those businesses, think of it in the low double digits.

Operator

Your next question comes from the line of John Nadel with Piper Jaffray.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Couple of quick ones on Specialty Property. Some helpful commentary to help us think about the expense ratio, I suppose, for the insurance business, that mid-40s that you mentioned in your prepared remarks. As it relates to the sort of favorable weather in the quarter, and ignoring catastrophe losses for the moment, I'm just wondering maybe, Chris, you can give us some sense recognizing any given quarter will have some variability around the mean, but can you give us some sense for how much you think that sort of favorable weather added to whether it's earnings or a lower combined ratio, or how to think about that?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

So a couple of numbers that might be helpful. So in terms of the 840 basis points, about 140 of it were better cat losses, okay, so we set that aside. We had, again, roughly 2.5 points were related to non-cat weather related. Okay, again recognizing the adverse development event that we had in the second quarter of '14. And then there's probably another 3 points there that were around kind of fire and then theft and vandalism, so that's again non-weather-related, non-cat. So maybe that helps. The other thing to remember though is that as the rate comes down, as premiums drop, we're sort of swimming upstream, if you will, around expense ratio and that's where the work and the investments we're making in the lender-placed platform to help us maintain the mid-40s loss ratio even as lender-placed normalizes and the revenues decline.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Got it, okay. And I'm glad you addressed that. That was sort of my next question. That mid-40s insurance expense ratio is what you're sort of targeting, inclusive of the expense saves that you're looking for in the back half of the year and in '16, right?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

That's correct. So we've been net investors, more expense than savings result, but that will change in the second half of '15 and then we're going to continue to see ongoing benefits in '16 and beyond. Just again, we've got -- just remember, again, this continued rate decline is going to be the challenge there as we want to maintain the expense ratio with declining premiums.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Understood. And then maybe a little nitpicky here, but if I look at the lender-placed gross written premium this quarter, it looks like it benefited from, I'm guessing from REO additions to the line. Because if I look at just the trend in the placement rate, the slight downward tick and the loans track as well as your commentary about declining premium rates, I would've expected lower gross written premium, but it

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wasn't -- it didn't decline. Can you give a sense for what else is happening there and how we should think about that underlying trend?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

No, I think you're absolutely right. As a reminder, REO is not part of the placement rate, though we did see a slight uptick there. Then there were some small loan movements, but mostly, it's REO.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Okay, so -- and maybe I'll follow up off line to see if we can sort of figure out how to estimate that. And then last one, and I'll get back in the queue, is just your outlook for the Corporate operating loss of $60 million to $65 million for the full year has not changed, but the first half of the year operating loss was just $13 million. I suppose it's just that there are some timing issues and maybe some onetime benefits in the first half of the year, but how should we think about that? I mean, do we just jump up the Corporate loss to get to that full year level? What's exactly driving that?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Well, a couple of things. Remember, there's some tax true-up that occurred in the first half that will reverse itself, which is about $9 million. And then again, our focus, as it will be with the entire company as we undertake this repositioning, is around operate expenses and committing resources where they are -- where they get the best source of return. So while we're staying at the $60 million to $65 million for the full year, our objective is obviously to lower that number.

Operator

Your next question comes from the line of Steven Schwartz with Raymond James.

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

Mark and John got a bunch of them. But if I may, can we -- can you go back and maybe talk about eBay in that deal and what is it that you're going to be doing for them? Is this an auto warranty-type of business?

Alan B. Colberg
Chief Executive Officer, President and Director

Yes, it is, and very similar to what we're doing with other OEMs or retailers. It's auto parts, auto supplies sold electronically.

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

Okay. Is this going to be a situation, Alan, whereby there's going to be some delay, there are some OEM warranty and then you come in after that and that's when you begin to receive revenues?

Alan B. Colberg
Chief Executive Officer, President and Director

It's similar to our vehicle service contract business, but not as long a delay. These are things that have a shorter, if at all, OEM warranties on them.

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

Okay, all right. And then just going back over to Seth's question with regard to the capital at Health. Okay, so I think it was $340 million of stat capital. The drain from stat capital is basically, I think, to make this easy, will basically be anything you missed in the PDR, anything having to do with the change in

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receivables from the government and then severance cost, that would -- or no, severance cost should not be a drain because that's already in the number. Was that really it?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Yes, I mean, I think it's largely the claims experience, change in those estimates, which again, goes back to the reinsurance recoverables, the risk adjuster. But really unlike the GAAP PDR, the stat PDR, the $215 million of capital that we've put into Health is designed to account for virtually all of the costs associated with the exit of the Health business.

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

Okay, all right. And then one more. There was a mention that you made an acquisition in the quarter.

Alan B. Colberg
Chief Executive Officer, President and Director

Yes. We made a small acquisition to really continue to build out our multi-family business. So in the multi-family business, as a reminder, we work with landlords. We provide a range of products and services. One of the things that we are doing is extending our capabilities to provide even more value to those companies. And so, one of the things we've added is a collections company, effectively receivables management. It was a small amount of capital going out. It's a small business. Really, we elected to buy the capability as opposed to build it, but it's an extension of our multi-family business.

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

So this would be like collecting late rents, stuff like that?

Alan B. Colberg
Chief Executive Officer, President and Director

Yes, and very integrated into our business model with our SureDeposit services, a very consistent part of that offering.

Operator

Your next question comes from the line of Sean Dargan with Macquarie.

Sean Robert Dargan
Macquarie Research

There's been some M&A activity in the insurance space generally recently, and I'm just wondering what to make of some of the valuations that were obtained in the market. So in lender-placed, QBE sold its lender-placed business for $90 million, which implies a pretty low valuation. I'm just wondering if you can maybe contrast your business with QBE's. Or is there any difference?

Alan B. Colberg
Chief Executive Officer, President and Director

So a couple of thoughts. I can't comment specifically on that deal because we don't have any unique information on it. In our lender-placed business though, we do feel we have the best business in the industry. We've been consistently gaining share in recent years. We've been reinvesting in that business to improve the capabilities. It's an extraordinarily valuable service and product for the mortgage industry. And we feel very good about that business as it normalizes, and we're confident it will remain a specialty business for us, as we talked about. More broadly, lots of activity going on in the market, we really can't comment on that. We're focused on repositioning Assurant around housing and lifestyle. That's a great franchise. It's an area where we've consistently generated specialty returns long term. It's an area where we hold leadership positions in most of the markets we now are playing in. We're continuing to expand

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our offerings to be more than just an insurance company with really integrated offerings to create value for the partners we work with. The businesses we're investing in are less capital-intensive on average, generating very strong free cash flow. We think all those actions are going to maximize the value of Assurant to our shareholders, and we feel good about the go-forward new Assurant.

Sean Robert Dargan
Macquarie Research

Okay. Can you give us any sense of what kind of market share you think you have in lender-placed?

Alan B. Colberg
Chief Executive Officer, President and Director

I'm trying to remember what we've said publicly previously, but we track 34 million loans. That gives you a pretty good sense of the overall share we have if you just look at total mortgages in the U.S.

Sean Robert Dargan
Macquarie Research

Okay. And then given what a Japanese mutual insurer paid for Stancore [ph], I'm just wondering if you can characterize the level of interest in your Employee Benefits business. Has it been very high? Have you been talking to international potential acquirers?

Alan B. Colberg
Chief Executive Officer, President and Director

So I think one of the positives of the early announcement we made in April is that it's obviously created a lot of interest in the company. Now the process itself is confidential, so I can't speak specifically to that. But as I said, we're on track. I think, the results and all the dialogue we've had with people so far affirms the value of our voluntary platform in our dental business. The business is continuing to perform well. Although earnings were down slightly in the quarter, the sales pipeline is strong. Persistency has been good. And we're confident it's going to be a valuable company and that we'll receive a good price for it.

Operator

Your next question comes the from the line of John Nadel with Piper Jaffray.

John Matthew Nadel
Piper Jaffray Companies, Research Division

So Alan, I just want to think a little bit bigger picture about capital deployment and maybe get a sense from you how you and the rest of the management team and the board are thinking about balancing the growth of the business, the return of capital to shareholders, the ROE and EPS sort of impact of buybacks versus the book value per share impact of buybacks. I mean, obviously, the stock has performed well and is for the first time in a long time, trading above book value, ex AOCI. And I guess I'm just interested in your views on how much dilution to that book value per share you're willing to, I'll call it, suffer, if you will, in the form of -- or from buybacks looking forward? Or if that is something that is even part of the consideration?

Alan B. Colberg
Chief Executive Officer, President and Director

So we're -- as the board and as management, we're focused on growing free cash flow and earnings as the primary thing we do. If we do that, we will create shareholder value over time. I think we remain focused on that combination of how we deploy the capital between returning it to shareholders appropriately and investing in the future. I think you've seen, we have a very strong track record of returning capital. But increasingly, book value per share is not the metric that is meaningful in thinking about us. We are more than an insurance company, and we continue to evolve toward more fee income and other types of services. So the focus really for us is free cash flow and earnings growth.

Christopher J. Pagano

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Chief Risk Officer and Executive Vice President

Yes, John. Just another -- just a follow-up on that a little bit. So again, continue to believe the stock is attractively priced. Our view is prospective one. If you think about the next 18 months around distributable earnings, so we've got operating earnings at the segments, which we're going to get more than that up this year, we expect proceeds from the sale of Benefits, again, probably around -- sometime in the first quarter. And then, we expect the return of capital to -- from the runoff of the Health business later in '16. And on top of that, we've got capital being thrown off by the lender-placed business as it normalizes. So that is the -- that's what's driving our view of value and it will drive our repurchase decisions. But again, as Alan points out, again, it's a combination. We've got to invest in our business to maintain the leadership positions that we have.

John Matthew Nadel
Piper Jaffray Companies, Research Division

And then, I guess, I'll ask the question not necessarily expecting anything detailed in response, but you're going to have more capital available for deployment than at I think just about any time in the company's history over the next, call it, 12 months, give or take. How robust is the M&A sourcing and pipeline? And have you done -- have you taken any action to sort of enhance the scale or size of your M&A staffing to, I guess, to sort of prepare for the potential?

Alan B. Colberg
Chief Executive Officer, President and Director

Yes. So I think I'd start with the broad reminder. We're committed to this combination of how we deploy capital. We have been very consistent in that approach over time if you look at our track record, and we've also been very clear that we are looking for acquisitions that are on the smaller side that extended and build off of the core franchise we have. We have not changed our M&A staffing at all as we go forward.

Operator

Your next question comes from the line of Michael Kovac with Goldman Sachs.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

I'm wondering, within LPI, can you discuss the level of price changes that you're seeing at the state level, particularly, some larger states, California, New York and Florida?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Sure. So again, we go back to what we have said in the past, which is sort of this 8% to 9% decline due to rate over the course of 2014 and into '15. But again, this is an ongoing process. Rate filings are a regular part of our business. We filed and received a rate approval of 4% decrease in Florida, most recently, which will start in the second half of this year. We filed our new product with New York with a 20% rate decline, which began in January. So the ongoing rate decline and the normalization of lender-placed is going to continue. And again, this is why we're going back to operational efficiencies around the lender-placed infrastructure and maintaining the targeting, that 45% expense ratio. So -- but it is an ongoing process. Those are 2 examples of recent rate changes.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

Great. And then understanding that the reinsurance costs came down in part because your exposures are shrinking, I'm wondering on a pricing basis, what level of reinsurance reductions did you receive?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

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So, yes, the way I would think about it, it's probably a 75-25 if you look at the $240 million of reinsurance cost down to $180 million. 25% of that is rate, and 75% of that is we're just buying less coverage. Again, we've got the normalization of the business, the sale of American Reliable all contributing to less exposure.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

Great. And then sort of a higher-level question, as you think about kind of the business post Benefits and Health, what do you think is the right level of debt to capital also kind of thinking about the fact that you're getting greater fee income relative to some of the more capital-intensive businesses?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

So I think, as we have increased stability of earnings and cash flow, we do -- we could potentially support a higher debt to cap ratio. Right now, we don't feel any pressure. We've got significant amounts of capital coming to us over the next 18 months, but we'll certainly revisit and like the flexibility that additional debt capacity could offer us.

Operator

Your next question comes from the line of John Hall with Wells Fargo.

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

A couple of follow-on questions. I guess, going back to the QBE property that was on the market, originally, when that sale took place, that $600 million or $700 million, I could see why you guys would pass on it. But why wouldn't you have taken a look at that, or maybe you did, as a relatively small cost to lock up market share in the LPI space?

Alan B. Colberg
Chief Executive Officer, President and Director

Yes. Obviously, we can't comment on M&A and whether we did or didn't look at anything. We do feel very good about our lender-placed business. We have the best platform in the industry. We've continued to build that platform and invest in it, and we feel good about that business.

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

All right then. And I guess, looking a little further out, a lot of the acquisitions have been on the -- from a revenue standpoint, on the fee side of the world. I guess looking ahead, what do you think the revenue split a couple of years out is going to look like from the standpoint of percentages commanded by fees?

Alan B. Colberg
Chief Executive Officer, President and Director

One of the things we're going to do, and we'll talk about this at the end of the call, is we are going to hold an Investor Day early spring of next year. And one of the things we want to do in that Investor Day is give you a better sense of what to expect over time from this company. So I'm going to pass on the question today, but ultimately, we will talk about how we think that's going to evolve over time, but clearly we're going to have more fee income over time than we have today.

Operator

Your next question comes from the line of Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

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I had a couple of questions. First, on the Health business. How should we think about sort of a ballpark of how much capital could be freed from the business once it runs off, I'm guessing, like, in 2016, but then the capital comes to the holdco in 2017? So I think stat capital is about $340 million, but you've put in $215 million this quarter. Should we assume that whatever you're able to take out would be less than the $215 million because otherwise you would not have put the extra capital in? And then secondly, on the Employee Benefits business, how has your retention, your sales been affected by just the fact that the business is being up put up for bid? Like have you seen any impact on that? And do you expect that to affect, in turn, the price that you get for the business?

Alan B. Colberg
Chief Executive Officer, President and Director

So let me start on the Benefits question and then I'll ask Chris to comment on the Health business. As we mentioned earlier briefly, the sales pipeline remained solid for that business. Persistency's been good and consistent with the past. And we've been very encouraged that we really haven't seen any disruption to the business. It's been business as usual. And all of our dialogue with the various companies that we've been in discussion with confirm it's a valuable platform. It's a valuable company. And we still expect to receive a very good price for it. But I will turn it over to Chris to talk about Health.

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Yes, so I guess the way I would think about it, Jimmy, is that it's early. We think, based upon our estimates today around claims experience and cost associated with running the business -- and again, these are costs that extend out into '17, so we've got a multiyear projection going on right now. But we do believe the $215 million is going to largely be all of the capital we need to put in for this year. Now that is subject to changes in estimates around the experience, around the recoverables and the risk adjuster. And then, into '16 and potentially into '17, we do expect to get the majority of the capital back in the form of operating dividends as we exit the business. But we'll continue to update and refine our estimates and we'll get a better -- every quarter that goes by, we get a better line of sight of what the end state looks like.

Operator

Your next question comes from the line of Mark Hughes with SunTrust.

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

The normalization in pricing for the lender-placed business, the down 20 in New York, down in Florida, would you anticipate that's kind of a step function? We're getting a normalization now and then it ought to revert to more of a consistent pricing more in line with underlying loss trends and material prices, things like that? Is this a onetime step-down?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Yes, I wouldn't want to speculate on that. Again, the filing process around rate is an ongoing one. We have regular dialogue with all of the different states. A lot of it's based upon experience. A lot of it's based upon operating cost and other inputs. Keep in mind that, again, the filings that once a rate is approved, it then takes the rest of the -- a 12-month period for it to find its way through all the policies. So there's that process is going on, too, but again ultimately, the normalization around is a function of rate. It's a function of placement, and it's a function of average insured value. So -- and seriously, delinquent loans and REO, et cetera. I mean, this is a process we do believe 1.8% to 2.1% is going to be the long-term target around placement rate. And as that occurs, operational efficiencies, capital that is released from the business as our risk goes down are all going to contribute to a normalization but then a specialty business in its final state.

Mark Douglas Hughes

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SunTrust Robinson Humphrey, Inc., Research Division

You mentioned U.K. review that led to some extra legal costs. Is that going to persist into the second half of the year? And is there any risks of any additional expense or fines or anything associated with that?

Alan B. Colberg
Chief Executive Officer, President and Director

So just as a reminder, those claims relate to a 2003-2004 set of policies that were sold. There's ongoing work obviously being done on it. But at this point, just in broad terms, we feel like we're appropriately reserved overall for all litigation and regulatory issues that we have visibility to.

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

Are you -- is there going to be a sustained level of legal spending on that?

Alan B. Colberg
Chief Executive Officer, President and Director

I can't speculate on that. It's an ongoing process.

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

But it's not over?

Alan B. Colberg
Chief Executive Officer, President and Director

No, it's not over.

Operator

Your last question comes from the line of Seth Weiss with Bank of America Merrill Lynch.

Seth M. Weiss
BofA Merrill Lynch, Research Division

I just want to follow on a couple of questions on Solutions, particularly in international, and I know that the legal expenses in the U.K. contributed to the higher combined ratio there. Where do you -- maybe an update on where you think that combined ratio is heading. And in terms of how it gets there, is it from a runoff of certain business lines? Or is it just improved experience in pricing?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

So yes, there's some noise in the number this quarter and last quarter as well, but we still think 98% is an achievable target. We continue to make improvements and investments in infrastructure. We had a lot of expense takeouts in the U.K. associated with our acquisition of LSG. So we feel like we're making progress and that we can still get to that 98% combined ratio.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Great. And in terms of getting to that 98% combined ratio, what happens to the top line? Is that -- is there a runoff of business there just in terms of trying to size what improvements there could actually mean for the bottom line?

Alan B. Colberg
Chief Executive Officer, President and Director

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If you think about the investments we've been making, we have very strong growth in mobile in markets outside of the U.S. We referenced the Claro growth and transaction a couple of quarters ago. We see very strong growth occurring in the U.K. So there's top line growth and really a mix shift towards really a mobile and service contract business outside of the U.S. Yes, the other thing it's important to remember is just the variability of FX that also plays through. But no, we feel good about the top line momentum. And as Chris said, we feel good about the expense actions that we've taken international that over time, allow us to push that combined ratio down.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay. So on a constant-currency basis, just to maybe explicit with the question, to trying to spill off in terms of your top line for international?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

I believe, yes. I mean, we're seeing obvious currency headwinds. I mean, this is some unprecedented volatility in the last several years but still feel good about the macro trends. I mean, our long-term view around international, in particular, mobile, we still believe these are attractive markets for us to be in long term.

Alan B. Colberg
Chief Executive Officer, President and Director

All right. Well, thanks, everyone, for participating in today's call. We look forward to updating you on our progress throughout the year. Also, as I mentioned, we're excited to announce we will hold an Investor Day in early spring 2016 in New York, and we'll provide more details in the coming months. As always, you can reach out to our IR team with any follow-up questions. Thanks, everyone.

Operator
Thank you. This does conclude today's teleconference. Please disconnect your lines at this time, and have a wonderful day.

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