S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

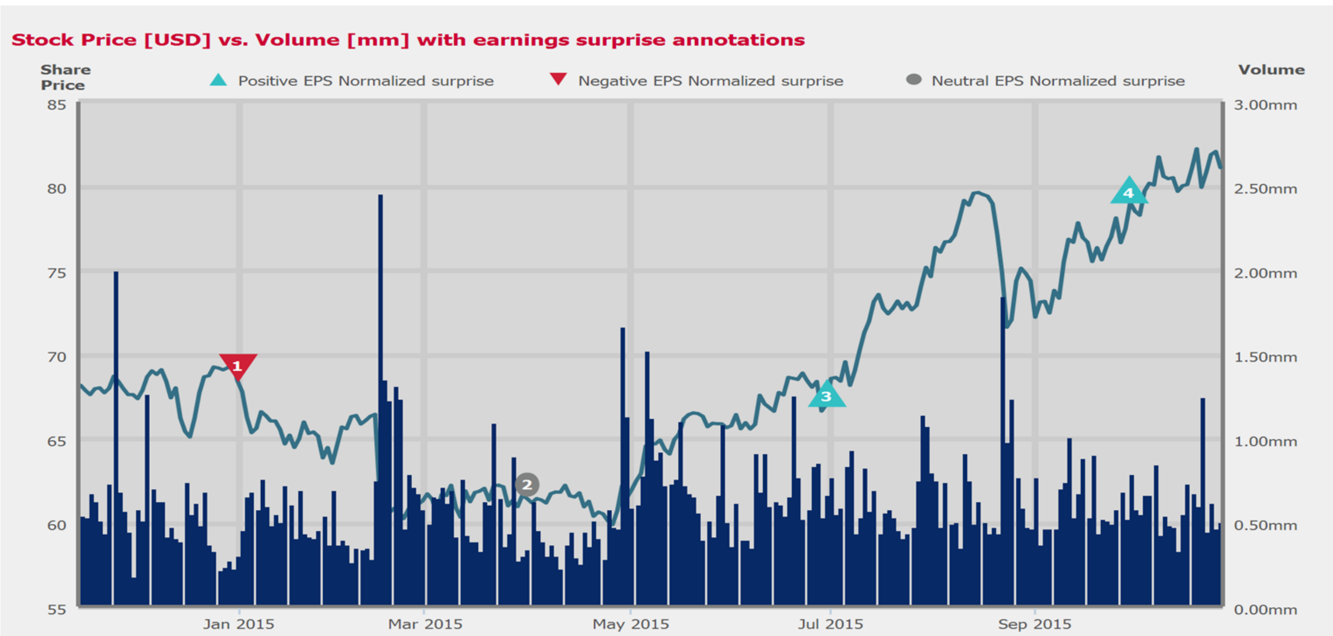
FQ4 2015 Earnings Call Transcripts

Wednesday, February 10, 2016 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	1.55	0.97	(37.42 %)	1.55	7.13	6.58	
Revenue (mm)	2026.82	2041.41	0.72	1937.20	8098.58	7990.01	

Currency: USD
Consensus as of Feb-10-2016 12:05 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	1.66	0.87	1 (47.59 %)
FQ1 2015	0.63	0.63	2 0.00 %
FQ2 2015	1.60	2.07	3 29.38 %
FQ3 2015	1.57	1.71	4 8.92 %

Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Christopher J. Pagano
Executive VP & Chief Risk Officer

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

ANALYSTS

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

John Matthew Nadel
Piper Jaffray Companies, Research Division

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

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

Sean Robert Dargan
Macquarie Research

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

Presentation

Operator

Welcome to Assurant's Fourth Quarter and Full Year 2015 Earnings Conference Call and Webcast. [Operator Instructions] It is now my pleasure to turn the floor over to Francesca Luthi, Executive Vice President, Chief Communications and Marketing Officer. You may begin.

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

Thank you, and good morning, everyone. We look forward to discussing our fourth quarter and year-end 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 fourth quarter and year-end 2015 results. The release and corresponding financial supplement are available at assurant.com.

Beginning in the second quarter 2015, we revised the presentation of Assurant's results to reflect our focus on housing and lifestyle specialty offerings. As a reminder, results for Assurant Health runoff operations are included only in net income and are no longer reflected in net operating income. We will continue to report Assurant Employee Benefits under operating results until the sale of that business is closed.

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 most comparable GAAP measures and a reconciliation of the two, 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 and upcoming 2015 Form 10K. Now I will turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Francesca, and good morning, everyone. Our performance in the fourth quarter fell short of our expectations and is disappointing. Results were marked by profit declines in both mobile and lender-placed insurance as well as some unusual items, which Chris will detail later. We are taking actions to address this weaker short-term performance as we execute our multiyear transformation and continue to deploy capital to create long-term value for shareholders.

While 2016 will be a transitional year, we are confident the underlying potential of our core housing and lifestyle businesses is strong.

During 2015, we made significant progress to realign our strategic focus and position Assurant for long-term profitable growth. For example, the sale of Assurant Employee Benefits to Sun Life Financial will provide Assurant with about $1 billion of net proceeds including capital releases and is expected to close by the end of the first quarter.

The exit of our health insurance operations remains on track. All of our Affordable Care Act, or ACA individual major medical policies, lapsed as of January 1, 2016. This allows us to accelerate the wind down and begin to release the capital that supports that business.

During the fourth quarter, we also focused on the go-forward organizational framework that will support profitable growth. We're realigning talent and moving to an integrated enterprise operating model to be more agile and cost-efficient worldwide.

The external searches for Chris' successor as CFO and for a Chief Technology Officer are moving ahead. We expect to fill these roles in the coming months. Once leaders are in place, we will further integrate their respective teams resulting in better coordination and greater efficiencies over time.

All of these steps are critical in our multiyear transformation to build a stronger Assurant for the future.

Now I'll offer some business highlights both for the quarter and the year, which reinforce our confidence in the future.

At Assurant Solutions, we continued to strengthen our competitive position in the mobile industry where we now protect more than 29 million devices worldwide. During the fourth quarter, we introduced new upgrade and device buyback programs for Telefonica in Spain and expanded our relationship with their Mobistar brand in Chile. While the contribution from these new relationships are initially small, they are important drivers in the global expansion of our Connected Living business and will help us to deliver 10% average annual growth in earnings long term.

We recognize the growth also will require additional investments, both in the U.S. and internationally. As an example, last year, we increased our staff significantly within our repair and logistics operations. This allowed us to process more than 8 million mobile devices in the U.S. Investments in our capabilities and infrastructure will be critically important to increase capacity and capture share in this dynamic market.

At Assurant Specialty Property, we made significant progress transforming our lender-placed platform as that business normalizes. These efforts will help us maintain our strong customer service and leadership position while we also generate savings in 2016 and beyond.

We're especially pleased with the contributions of our targeted housing businesses, where we continue to leverage our deep industry expertise and capabilities to increase revenue and profitability.

For example, multi-family housing revenue increased 22% in 2015 and accounted for $280 million of premiums and fees. We increased our share of wallet with Affinity Partners and added several new national property manager relationships.

Similarly, our mortgage solutions business captured share and generated nearly $290 million of fee income for the year. Currently, we provide valuation or property preservation services to 7 of the top 10 servicers and 5 of the top 10 mortgage originators. We believe there are significant opportunities to cross sell additional offerings and grow with existing and new clients.

In the year ahead, we will continue to invest in multifamily housing and mortgage solutions as targeted areas for growth. In both of these businesses, we are well positioned for the future.

Now I'll highlight overall results for full year 2015, which exclude the health runoff operations.

Operating ROE, excluding AOCI, was 11.3% reflecting lower earnings, especially Property and Solutions.

Total revenue for 2015 was $7.3 billion, a 4% decrease from 2014. Despite this decline, we're pleased that our targeted growth areas, including mobile, multi-family housing, and mortgage solutions now account for $1.6 billion of revenue, a 16% increase from 2014. These constitute primarily fee-based or capital light businesses that complement our specialty risk offerings.

In 2015, we also continued to generate strong cash flows driven by Specialty Property and Solutions, which provided approximately $600 million of dividends, or almost 120% of their combined earnings. This allowed us to invest in our Housing and Lifestyle offerings, capitalize the wind down of Health, and still return $380 million to shareholders.

Looking ahead, we are focused on executing our transformation to build a stronger Assurant for the future. This year, we expect to complete our portfolio realignment and establish our new organizational framework. The ongoing normalization of lender-placed, declines in nongrowth areas, and variability in foreign exchange, will however present headwinds. We are taking additional steps to position the company for profitable growth in 2017 and beyond.

The proceeds from the sale of Employee Benefits, dividends from Health, and cash flow from our ongoing businesses will provide significant financial flexibility. With this capital, we'll be able to fund meaningful investments to build our global lifestyle and housing offerings and continue to return capital to our shareholders.

We are also identifying opportunities to increase operating efficiencies. Last month, for example, we announced within Assurant that we are freezing our pension plan effective March 1. This action will generate annual pretax savings of about $35 million.

In addition, we will take other actions to integrate our support functions and further streamline our operations to reduce expenses over time. I want to thank our employees for their hard work and commitment to our strategic transformation.

In a short period of time, we have made significant progress. And while there is more work ahead, I'm proud of what we've accomplished and I'm confident in our future.

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

Christopher J. Pagano
Executive VP & Chief Risk Officer

Thanks, Alan. I'll start with Solutions. Net operating income totaled $30 million, a $29 million decrease from the prior year. Nearly 2/3 of the decline was driven by weaker than expected mobile results. This included the loss of the tablet program referenced in prior quarters and $6 million of higher expenses to support existing programs and new launches expected this year. These factors along with lower production from North American retailers and continued runoff in the credit business, also contributed to poorer performance in the quarter.

In addition, Solutions fourth quarter included a few unusual items. We recorded $8 million of prior period accounting adjustments related to the overstatement of mobile inventory and account receivables in our legacy warranty business. This represented a cumulative adjustment with no material impact to any previous periods. Foreign exchange also created a significant headwind in the quarter, including foreign exchange losses on intercompany balances with both Latin America and Europe. The accounting adjustments and foreign-exchange losses were nearly offset by a year-over-year decrease in legal reserves following a preliminary decision of an outstanding U.K. regulatory matter.

Turning to revenue. Solutions revenue was flat compared to the fourth quarter of 2014. Premiums were down modestly due to foreign exchange pressures, the loss of the tablet program, and declines in runoff business. Fee income, now nearly 25% of Solutions quarterly revenue, increased significantly as we expanded our mobile administration and repair offerings.

Looking ahead, despite recent weakness, we remain optimistic about the future prospects of Solutions. Based on current estimates, we expect earnings growth in 2016. This will, however, be more heavily weighted towards the second half of the year due to the launch of new mobile programs, improved international profitability and additional expense initiatives.

Next, let's look at Specialty Property. Excluding the divestiture of American Reliable, or ARIC, net operating income decreased $7 million to $58 million. Results reflect the ongoing normalization of lender-placed, the previously disclosed loss of client business and an increase in legal expenses. This was partially offset by lower reinsurance costs due to our declining exposure as well as favorable non-cat loss experience.

Also excluding ARIC, fourth quarter net earned premiums were down 8% from 2014 primarily due to a 30 basis point decline in the placement rate, which includes the previously disclosed loss of client business.

While overall revenue at Specialty Property decreased, targeted growth areas contributed $157 million of premiums and fee income in the quarter, up 22% from last year driven by mortgage solutions and multi-family housing.

For the quarter, Specialty Property's total expense ratio increased 670 basis points year-over-year. Around 570 basis points of the change was driven primarily by lower premiums and higher legal costs related to outstanding matters. The remaining 100 basis points is due to growth of the fee-based business.

Total expenses in absolute dollars declined modestly year-over-year reflecting the impact of expense management initiatives already underway. We expect additional savings in 2016 as we further transform our lender-placed platform including the implementation of new technology to further enhance efficiency and customer service.

With the continued normalization of lender-placed, we expect additional reductions in Specialty Property's revenue and earnings this year. Actions are underway to transform our operating platform and diversify our mix of business, which will help us maintain attractive returns.

Turning to Employee Benefits. Fourth quarter earnings increased to $15 million driven by favorable disability and life experience. Net earned premiums and fee income increased slightly compared to the fourth quarter 2014 as growth in Voluntary more than offset expected declines in true group disability.

As Alan mentioned, we expect to close the sale of this business by the end of the first quarter. We have received a majority of required state regulatory approvals and are moving toward closing.

At Health runoff operations, the segment reported a fourth quarter net loss of $16 million in line with our estimates. This included $11 million in severance-related costs and other indirect expenses not included in the previously established premium deficiency reserves.

During the quarter, we had a $250 million net infusion into Health to ensure adequate levels of statutory surplus and fund estimated exit related charges and claims through the wind down process.

We now expect to dividend $475 million from Health during 2016 with additional modest dividends expected in 2017. This is subject to regulatory approval, any significant changes in claims experienced and the final payments from the 2015 risk mitigation programs.

So far, preliminary claims development in January for 2015 policies continues to track our estimates. As of December 31, we received all expected cash payments for the 2014 ACA risk mitigation programs. For 2015 policies, we booked an additional $150 million in the quarter related to the reinsurance and risk adjustment programs. This brings the total amount accrued to $522 million. Reimbursements for 2015 recoverables will be paid in various installments starting at the end of March.

Moving to corporate, we ended 2015 with $210 million in deployable capital. During the fourth quarter, we paid $33 million in shareholder dividends reflecting our increased payout and we repurchased $74 million worth of stock. Overall, for the full year 2015, the company repurchased 4.2 million shares or nearly 6% of our common stock outstanding. This year through February 5, we've repurchased an additional 1.1 million shares for $90 million. We believe the stock remains attractively priced.

Based on our current estimates, 2016 dividends from Assurant Solutions and Specialty Property should approximate total segment operating earnings. In addition, proceeds from the sale of Employee Benefits and dividends from Health will provide us with nearly $1.5 billion of deployable capital for the benefit of shareholders. As always, all dividends are subject to rating agency approval.

The corporate loss for the quarter increased $11 million to $31 million reflecting an expected reversal of a tax benefit recorded in the first half of the year as well as $3.5 million of severance and other strategic repositioning costs. This year, we expect the corporate loss to approximate $70 million. We will work to eliminate residual expenses from Health and Employee Benefits and implement other initiatives so that we can exit the year at a lower run rate.
For Assurant overall, we are committed to executing our transformation strategy and positioning Housing and Lifestyle for profitable growth long term. And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of John Nadel of Piper Jaffray.

John Matthew Nadel
Piper Jaffray Companies, Research Division

I have a couple of questions. I wanted to think about the expense ratio in Specialty Property and how we should think about that trending. And I know you highlighted that the majority of the year-over-year increase in the expense ratio was driven by the insurance business, the lender-placed business. Some of that driven by the decline in revenue but some of that as a result of an increase in legal costs. Can you give us some sense, as we head into 2016, what you think a core or underlying expense ratio was for the year 2015 that we should be trending off of?

Alan B. Colberg
President, CEO & Director

So John, let me start and offer a few perspectives and then, Chris maybe can go a little deeper, if appropriate. The way we think about the quarter, first of all, for Property is pretty much as expected given the normalization of the lender-placed that's ongoing. We've talked about the progress we've been making transforming that platform and investing to really create the best platform and the best offering in the industry. And we see that progressing well and we still are confident that, that insurance expense ratio longer term will be in the mid-40s, as we've said previously. On the legal costs, these are related to the multistate and outstanding litigation ongoing matters. We continue to cooperate. And at the moment, we feel appropriately reserved for everything we know on those matters. But that's how I think about where we are with lender-placed.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Okay, so longer term, if we think about the lender-placed business, we can still think about the mid-40s?

Alan B. Colberg
President, CEO & Director

Yes.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Okay. And then, if I turn to Solutions, obviously fourth quarter was weak, but the full year looks like it was a pretty good year. Some onetime items may be impacting the domestic and potentially, even the international combined ratios, if I look at those ex pre-needs [ph]. Similar question to the Specialty Property question, if we look at the combined ratio, domestic and international in Solutions for the full year '15, how should we think about what you think about as the underlying core level off of which we got to be trending as we look out to '16 and beyond? And I assume in both cases, you would expect both of the combined ratios to decline as you build the business?

Alan B. Colberg
President, CEO & Director

So let me start with some overall thoughts on Solutions as well and then, Chris, I will ask you to kind of comment on this one. Obviously, a disappointing quarter. With that said, it's important to remember the transformation that Solutions has undergone over the last couple of years. In the last couple of years, we built a global leader in the mobile and Connected Living business. We've expanded our distribution. We've added clients. We've added services and we're building a much more diversified set of earnings. With that said, it does have some quarter-to-quarter volatility on that journey, but we feel very good about the evolution of Solutions. But Chris, you want to comment more specifically?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes I think in general, so again work to do on the international side, targeting the 95% combined ratio has been the long-term goal and we're going to continue to focus on increased operational efficiencies in order to achieve that. I think on the domestic side, as we move more to the fee-based model, the concept of a combined ratio probably is less relevant. But I think the focus here is long term growth in NOI, and we expect to see growth 2016 versus 2015 largely back-end loaded, if you will, as we ramp up some of the new programs that we've been -- and relationships that we've talked about. And then, long term on average, a 10% annual growth rate of NOI is still an achievable result.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Okay. And if we think about -- you've talked about long-term 10% growth. The fourth quarter of '15 obviously, makes that kind of growth rate for '16 perhaps a lot easier to achieve. I guess, with maybe the exception being if there is some sustainability of a little bit of that weakness in the fourth quarter into the first part of '16? Is that how we should be thinking about things for '16?

I mean the outlook commentary still says growth, but it doesn't really change to reflect the fact that fourth quarter was weak. Do you understand what I'm getting at?

Alan B. Colberg
President, CEO & Director

Right, John, I understand. We tend not to focus on the quarter-to-quarter. We focus much more on the long term and where this business is going. If we think about '16, what we've said is we expect earnings growth in Solutions in '16. That's going to be more in the second half of the year than the first half of the year. The first half of the year, we still have the ongoing impact of the tablet program that we've talked about. But by the time we get into the second half of the year, some of the new launches that we've been investing in, expenses to support really come to fruition and we expect improvement in international as well as some other expense initiatives. But I think the important thing about this business is we feel very good about the long-term direction and the growth. If you look at it over the last few years, it has been dramatic in Solutions.

John Matthew Nadel
Piper Jaffray Companies, Research Division

And then just a real quick, the $6 million of higher expenses in the fourth quarter in Solutions to start up a couple of new programs, is that a pre- or after-tax number?

Christopher J. Pagano
Executive VP & Chief Risk Officer

That number is after-tax.

Operator

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

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

The first -- so just on the placement rate in the Specialty Property business, it has been declining but I think the decline has been slower than what you would have assumed a few years ago. So what's your expectation for where it eventually settles and your best guess as to when it gets there because it seems like now you've seen a consistent decline whereas in the past, it had been a little bit more stable? And then I have another one after that.

Alan B. Colberg
President, CEO & Director

Yes, I guess in general, I think, perhaps it was slower versus several years ago. But really right now, if you look at the year-over-year, that's really in line with our expectations. I think the guidance we've given is longer term, a 1.8% to 2.1% placement rate. What we will do at Investor Day is provide you an update in terms of our outlook on the path forward.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay, and as that happens, I'd assume there will be negative expense leverage in the business. What's your ability to cut expenses to offset the impact? Or have you cut expenses to the extent you believe you'll be able to?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So we are absolutely focused on operational efficiencies. We've talked in the past about Project Encore, which was a multiyear program designed to improve the customer service experience and expenses primarily through technology enhancements. Last year, we were -- the run rate savings exceeded the net investment. We're going to continue to invest this year. And then, full run rate savings will be achieved in 2017. So the expectation is we'll exit '16 and move into '17 with a much more appropriate infrastructure and expense base relative to keep pace with the decline in the revenue in lender-placed.

Alan B. Colberg
President, CEO & Director

And Jimmy the other important point there is it's not linear quarter-to-quarter, what we're really focused on is making sure we have an operating model that can continue to deliver a great consumer and client experience, but that ultimately delivers that insurance expense ratio in the mid-40s. And as Chris said, we do expect significant savings in '16, which will help offset some of the normalization of lender-placed.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And then, in terms of the deployment of the money that comes out of the sale of the Employee Benefits business, I'm assuming that the sale closes in the -- at the end of the first quarter, do you expect to dividend that up in the second quarter and you'd use most of that for buying back stock? Would it be in the second and third quarters? Or could it be spread over the next year?

Alan B. Colberg
President, CEO & Director

So let me start on that and then Chris, can talk in a little more detail on benefits specifically. I mean, our approach to capital management remains the same as it's been now for many years, which is we're committed to this disciplined return of capital to shareholders through the dividend and the buyback as well as appropriate investments in our ongoing businesses either through organic or through M&A. With that, said, Chris, you want to comment more specifically on AEB and the timing.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Sure, so maybe talk in general about all of the anticipated proceeds this year, both Benefits and Health. I think so -- we anticipate the close in the first quarter of the Benefits business. Those proceeds will arrive at a legal entity. We will request a dividend in the second quarter. And then, some additional ongoing release of capital throughout the balance of the year. On the Health side, the focus right now is to honor our obligations to the insureds, pay claims, which -- on the 2015 policies, which will tail off as we move through 2016. We expect receipt of the risk adjuster and reinsurance recovery receivables in the second half and expect to have the lion's share of the $475 million of dividends occur then. So sort of a second quarter and then second half, significant amount of proceeds available for deployment.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And then just on the usage of those proceeds, I think you've mentioned M&A and buybacks. Is that still the case? And on M&A what's the pipeline like? Obviously, in the past, you haven't done deals that have been as large as what's the amount that can be freed up is going to be?

Alan B. Colberg
President, CEO & Director

Yes, there's no change in our approach to capital management. We look at deploying it through returning it to shareholders as well as investing in the future. We have an ongoing pipeline of M&A really in and around the businesses that we play in. And you've seen the kind of deals that we have announced that are really in the mobile business, in the multi-family housing, in the mortgage solutions. They're really trying to deepen and invest in our core growth areas. We have a decent pipeline of those, but equally we are committed to return of capital.

Operator

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

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

You've been nice and clear about the insurance expense ratio in Specialty Property going back to the mid-40s. Similar numerical target for the Solutions business? I hear what you're saying that the growth in the fee makes that a little less useful, but it was elevated this quarter. How much lower should it get back to?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So I think our focus really when it comes to Solutions is the long-term NOI targets that we've talked about, again, growth in '16 versus '15, 10% average annual growth over the long term in that business. In terms of Q4, we had some ramp-up costs in anticipation of future program launches and servicing existing program launches. There were some additional costs associated with sourcing and servicing some of the programs that we have in place. I think between the focus on operational efficiencies within Solutions and then some of the transformational work that we've got underway at the enterprise, we expect to make -- create some greater operational efficiencies going forward to help us achieve that 10% NOI growth target.

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

And then, relative to the first half, you talked about growth focused on the second half but you've got some tough comps in the Solutions business. Are you going to be flat in the first half year-over-year, which would be a lot better than you did in Q4? Or should we look for down in the first half?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So I don't think we want to talk about quarter-over-quarter or half over half. Just as a reminder in the first half, we're going to have again the ongoing impact of the tablet program, which we have talked about, there will be some additional pressures around some of the traditional North American retail business and the runoff credit business. And then, in the second half, as some of these programs we've described on the mobile side start to ramp up and generate increased revenue, that's where we're going to see the most of the -- the majority of the NOI growth for the full year.

Mark Douglas Hughes

SunTrust Robinson Humphrey, Inc., Research Division

On the Health business, I think you've touched on many of these points but just -- so I have got it straight in my own mind, the incremental expense that you're looking at now relative to what you discussed 3 months ago, could you just run through those in the Health segment?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So a couple things and maybe -- I think -- maybe -- I'll talk maybe little about the concept of the PDR and what's in the GAAP PDR versus the stat PDR. The GAAP PDR, you can put direct expenses, which we have, in there. On the stat side, it's a bit more onerous so we've already pre-funded some future severance and some indirect expenses.

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

And I am thinking about not the timing of payouts, which you have already described, but any kind of new or incremental or additional payments or expenses that have developed over the last 3 months?

Christopher J. Pagano
Executive VP & Chief Risk Officer

No, I think we're on track. I think claims experience has been in line with our estimate. The expenses are also in line. I think right now, when I think about the $475 million of dividends, we've got some risk in our estimation around the reinsurance recoverable and the risk adjuster. We do have some risk potentially in terms of how the 2015 claims emerge over -- the majority of which will be over the first half of '16. But again, better line of sight in every month that goes by, where claims are in line with our expectations gives us a greater degree of comfort that we'll exit that business with some significant capital return to the holding company.

Alan B. Colberg
President, CEO & Director

Yes, and we mentioned this in the prepared remarks as well, but the January claims experienced on the '15 policies developed as we expected as well. So I think the good news is the last 3 or 4 months, things in Health have been performing as we have now expected.

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

How much of the -- in Property, I think you've given 570 basis points of impact from lower premiums, higher legal. How much of that was legal? And is that going to drop off pretty quickly?

Alan B. Colberg
President, CEO & Director

Well, I think on the legal side, at this point, they're ongoing matters, as we mentioned. We can't quantify that. But based on what we know today, we feel appropriately reserved for the legal cost.

Operator

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

Sean Robert Dargan
Macquarie Research

In Property, so the loss ratio will trend to the mid-40s. Is it safe to assume that your expectations for the normalized loss ratio -- or the base loss ratio ex cats will be higher than it was in 2015?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So in terms of -- well, again, keep in mind, the rate -- there's the absolute expenses versus the ratio. I think in 2016, I don't want to predict, but the expense saves that are coming from some of the operational efficiency programs that are underway will achieve kind of full run rate status by the end of '16 into '17. That will allow us to get to that longer-term 45% insurance expense ratio. In terms of loss ratios, we're seeing better non-cat loss experience, which is -- some of it is mild weather related but some of it is actually related to fire and theft trending lower. So we feel a little bit better about that. But again, keep in mind, the ratio is going to be a function of not just the numerator versus [ph] the absolute losses but the decline in the denominator, which is the normalization of lender-placed and lower premiums going forward.

Sean Robert Dargan
Macquarie Research

Okay. And if we do slip into a recession in 2016, there's the possibility that the placement rate will stop contracting, correct?

Alan B. Colberg
President, CEO & Director

Yes. I wouldn't want to speculate on that, but certainly we've seen in past housing cycles that if the housing market goes into a downturn, our business has benefited.

Sean Robert Dargan
Macquarie Research

Okay, great. Just a question about the tax rate in Solutions, where should we be modeling that?

Christopher J. Pagano
Executive VP & Chief Risk Officer

I think longer term, we're looking at roughly, in the low 30s would be a good number.

Sean Robert Dargan
Macquarie Research

Okay, and that's because of the international contributions?

Christopher J. Pagano
Executive VP & Chief Risk Officer

That's correct, the mix of business internationally, yes.

Operator

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

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

So thinking about sort of the strong fee-based sources of income that have been growing in Specialty Property, can you give us a sense of what you're seeing as the organic growth rate in those businesses maybe more specifically by some of the lines that you're targeting growth in. And sort of fair to assume that we're close to really organic growth rates in the fourth quarter or anything we should be backing up?

Alan B. Colberg
President, CEO & Director

So first thing I would say, we're going to, at our Investor Day, provide more disclosure around the growth areas. So that would be multi-family housing. That would be the mortgage solutions business. In the multi-family housing business, there's market growth. As people rent more, we're gaining share as well. And I think we've said roughly, a 20% growth in that business over time. And then in mortgage solutions, when we purchased the couple of companies that we acquired back in '13, '14, they had about $250 million all-in of revenue. That's now up to $290 million in '15 and so we had pretty good growth through share gain there as well.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

That's helpful. And then in terms of thinking about Solutions, I guess, you'd outlined some ongoing costs relative to sort of servicing ongoing programs, I should say. Can you help us understand what those costs are related to first? And then second, as it relates to Solutions expenses, when we think about program launches, is it reasonable to expect that 6 to 12 months before the program's sort of fully up? Or can you help us get a sense of where the incremental cost versus revenues come in when we hear those announcements?

Alan B. Colberg
President, CEO & Director

So to answer the first half, I think the primary source of the increased expense was really sourcing phones and parts as opposed to the labor associated with the servicing. In terms of the second question, each program is different. They all start small. We -- in the fourth quarter, we talked about preparing for anticipated program launches and existing programs that are going to grow. That's largely staffing. So that's people. And I think -- but I wouldn't want to put a target number on a program because they each emerge differently.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

And then one last one, on the lender-placed, any sense of what renewal premiums or rates you're getting in core states like Florida, California and New York? And then, also sort of more broadly, are you seeing any change in competition following the completion of the QBE National General deal in the fourth quarter?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So right now, we're in what I would call a normal course filing process. We have ongoing dialogue with all of our regulators. Those filings have varying degrees of frequency. We do have some -- we've modeled in, in terms of some of the anticipated revenue declines, some additional rate, which we anticipate. On the other hand, we know that we're providing a valuable product and service in terms of capacity in some of the cat-prone markets. In terms of competition, we don't -- we wouldn't want to talk about anything in particular. We do feel very good about -- it's a competitive market, but we feel very good about our product offering and continue to believe that our service -- our services are appropriate and it's why we're a market leader.

Operator

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

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

First, a couple on Solutions. First, on the expense side. I'm wondering here if we can look at this somewhat as you look at Specialty Property in terms of providing an expense ratio either on insurance or the fee side? Your revenues are flat year-over-year. The expenses were up after the 2 items that you talked about, the launch costs and the prior period adjustment, by about $33 million despite revenues being flat. But the fee income is up dramatically. So what I'm assuming here, and Chris, you can tell me if I'm right, is that what we're really looking at here is mix shift on the expense line?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, let me comment on that. One of the challenges when you look at Solutions is you have very different businesses and there is a major mix shift going on there. What we want to do at the Investor Day is help all of our investors better understand the lines of business that we have. And so just a couple things we'll cover or plan to cover at the March 8 Investor Day. We'll talk about kind of long-term targets and update those for both the company and then some of the key lines of businesses. We'll provide more disclosure around the key growth areas of the company and what's really growing for the company are the fee income and capital life businesses like mobile, mortgage solutions, multi-family housing. And then we'll talk about capital management and how that plays into achieving our long-term targets for the company. So hard to give a meaningful overall number for Solutions. We'll provide more granularity at Investor Day.

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

Okay. Sure, that will all be good. And then, also on Solutions, maybe you can just remind us about the seasonality of the fee income? Obviously, you got a big boost in the fourth quarter. You did last year as well. Is that marketing dollars for Christmas?

Alan B. Colberg
President, CEO & Director

It's more tied to individual carriers and partners and what they're doing. It's not really seasonal in that way. So it's hard to generalize that.

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

Okay. And then Chris, on the Corporate and other, you gave guidance. Could you maybe quantify for us what you think the orphan costs will be from the exit from Employee Benefits and Health that will be included in Corporate now?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So maybe just a couple of examples. I'm not sure we can give you specific numbers, but they are reflected -- first of all, they're reflected in our target run rate of $70 million but -- so when Benefits is sold and Health is wound down, we're still going to have financial reporting costs. We're still going to have asset management costs associated with the other $12 billion of assets that we manage. We're going to absorb those. We did take the decision to freeze the pension plan, was designed to help offset some of those stranded costs. And then of course, all of the transformation work that's underway is also designed to not just absorb stranded overhead that we're going to see coming out of Health and Benefits but also to better position the company going forward to be more agile but then also more efficient in terms of support functions.

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

Does the pension plan savings, does that run through Corporate or does that run through the segments?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So it's based on pensionable wages, its roughly half corporate, and then the rest is distributed across Solutions and Specialty Property.

Operator

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

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

I have a question around capital management. I guess, when you sort of accelerated repurchases and the like, your leverage was fairly low. It's moving up a little bit. As you go forward, should we be considering and thinking about, I guess, debt retirement along the way as you balance the capital management program?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So we -- the capital management decisions and the ongoing capital structure is all part of the decision-making. As we deploy the capital, either through -- in share repurchase, dividends or organic and growth via M&A, we'll keep an eye on the debt to capital ratio. As a reminder, we went public with a 25% debt to cap and been able to stay below that going forward. Any decision that we might make around changing the capital structure would probably be one that we would do in concert with the maturing 2018 $350 million 5-year note that matures. But again, this and then there is -- there are scenarios depending on how earnings volatility emerges, and we move more towards the fee-based structure. We may decide that there's a possibility of potentially increasing leverage, but not a focus right now. We've got plenty of deployable capital. No need to go out and borrow more.

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

Understood. And as far as the mortgage solutions business goes, you've done a good job of penetrating across the servicers and the originators so far. I guess what's holding you back on the other 5 and the other 3 on the top 10?

Alan B. Colberg
President, CEO & Director

So we obviously won't comment on specific clients but broadly, these are long sales cycles. You normally get in, get a trial. You need to prove you can deliver and over time, will grow, and that's been what's happening. But we're in active discussions with many target clients that we'd like to have in our portfolio.

Operator

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

John Matthew Nadel
Piper Jaffray Companies, Research Division

I just wanted to think about the impact in Specialty Property, lender-placed declining, premiums declining, catastrophe reinsurance program costs are right on line, lower. Geography is roughly similar. I just wanted to think about what kind of catastrophe loss ratio you guys would consider roughly normal as we think out to 2016? Obviously, '15 was a light year. So if we normal -- if we just model a normal year, we'd expect something higher. I'm just curious how you think about what a normal year would look like in [indiscernible].

Christopher J. Pagano
Executive VP & Chief Risk Officer

John, it's very difficult to put a number on it. It's variable. I mean, the only thing I will say is that we haven't had a major catastrophe hit Florida, in particular, and we've been -- the light cat years are not going to continue. I mean, the odds don't favor that, so it's something to keep in mind. We do spend a lot of money on catastrophe reinsurance for that very reason. The fact that we've not had claims, in terms of our reinsurance tower, won't change what we're going to do in terms of purchasing protection because we know that preserving the balance sheet and preserving earnings stream is very important to us going forward.

Alan B. Colberg
President, CEO & Director

Yes, the other important point, John, is as the business normalizes, our exposure has been coming down significantly. And as Chris said, we then build an adequate reinsurance tower to help mitigate the risk if a cat does occur.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Yes, I guess, my point is that, I assume as the business normalizes, since so much of the growth was coastal, as it normalizes, it would -- I would expect that the geography mix would revert back to a more normal level as well and your cat exposure in a more normal cat year ought to decline. Is that a reasonable way to think about it even if we can't talk numbers?

Christopher J. Pagano
Executive VP & Chief Risk Officer

I mean, in general, I guess that's okay, but I mean there's lots of factors that go in here. We have seen some shift in terms of the cat exposure, but it's still coastal. Out of the southeast but into the northeast. If you think about the most recent significant event that we had, Superstorm Sandy was a Northeast event. So not -- again -- don't -- we will make our decisions on reinsurance purchases based upon the information we have in front of us at the time. In terms of rate, rate seems to be bottoming. But as Alan mentioned, our overall exposure is going down and that's the main driver of lower reinsurance costs.

Alan B. Colberg
President, CEO & Director

Yes, the other important point I think is, we are, with our product providing a very valuable service to the mortgage industry and it will have more coastal, and has always had more coastal than a normal book of business.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Understood. And then last question, maybe it's for you, Alan, I want to think about the $74 million of buybacks in the fourth quarter. When you reported your third quarter earnings, I think you had mentioned in the release that you had done $74 million of buybacks through the month or most of the month of October. So November and December, obviously, you weren't in the market. You've got a significant amount of inflows to the parent coming. Is it simply a matter of timing of those cash flows to the parent that kept you out of the market in November and December? Or was there something else?

Alan B. Colberg
President, CEO & Director

So many, many factors go into our thinking about repurchasing our stock. First, is our stock attractive? And we believe it is attractive and remains attractive. In the fourth quarter, there was a lot of uncertainty around Health and we felt prudent was to hold our capital just in case. We're now feeling much better about how Health has developed. And I think what you've seen us doing and you saw us do it in January, we were obviously actively back in the market again. And over time, we are committed to that return of capital to shareholders as well as appropriate investments in our core businesses.

Christopher J. Pagano
Executive VP & Chief Risk Officer

John, this is Chris, the other thing I would point out and again, we've talked about this in the past, we feel very comfortable with our approach to share repurchase, 10b5-1 programs, in the market consistently, prospective based upon our views around capital, inflows and outflows, Alan's point around the conservatism or the prudent approach given the uncertainty around Health is I think consistent with how we've done things in the past. And then, if you go back and you look, we bought 56 million shares since 2010 through February 5, so its unambiguous that we're willing to return the capital and we do think share repurchase has been and will continue to be a prudent use of deployable capital.

Operator

Your last question comes from the line of Mark Hughes from SunTrust.

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

I think you've touched on this, but the general point of -- with growth in fee income, does that tend to be more expense heavy upfront as a general matter? And then, you would assume that it would get more profitable over time?

Alan B. Colberg
President, CEO & Director

So I wouldn't think of it exactly that way. It does tend to be expense heavy. That's the nature of that business. That's one of the reasons why you see the noise in the various ratios is that as we grow the fee-income businesses, they have a higher component of fee expense relative to the income they generated. But I wouldn't assume that they start high expenses always and get better over time.

Christopher J. Pagano
Executive VP & Chief Risk Officer

I think the other thing to remember and I think this is one of the key components of our thesis around mortgage solutions was fixed cost, but grow scale and through that, achieve operational efficiencies. So there's a fixed variable element, which as we grow these businesses, will create a better expense ratio going forward.

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

You say you've got 7 of the top 10 servicers you have relationships with. What's your penetration among those 7? How much of their business do you have?

Alan B. Colberg
President, CEO & Director

I think it's fair to say in general, we have a small but growing piece of their business with a lot of opportunity to consolidate a very fragmented set of relationships and markets.

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

And then a final question on M&A, are you finding the competition or valuations a little more attractive these days? Or is it about the same?

Alan B. Colberg
President, CEO & Director

Hard to generalize. What I would say is we've been very consistent in our M&A approach, which is to find kind of smaller deals that naturally fit into what we're doing and that's where we remain focused in our M&A.

Alan B. Colberg
President, CEO & Director

All right. Well, thank you, everyone, for participating in today's call. We look forward to hosting our Investor Day on March 8th when our executive team will provide an update on our long-term strategy to reposition the company for profitable growth. As always, you can reach out to Suzanne Shepherd and Jisoo Suh 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.