S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

FQ2 2012 Earnings Call Transcripts

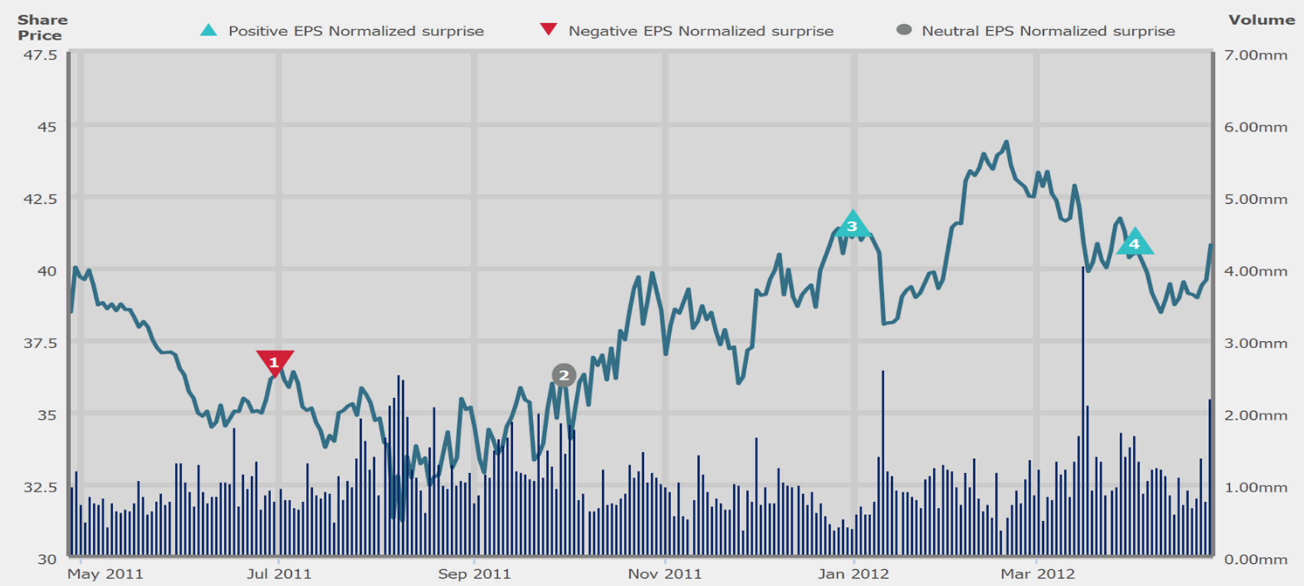
Thursday, July 26, 2012 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2012-			-FQ3 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.38	1.81	▲31.16	1.24	6.10	5.75
Revenue (mm)	2081.45	2129.29	▲2.30	2103.72	8425.41	8336.54

Currency: USD
Consensus as of Jul-26-2012 12:42 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2011	0.92	0.76	▼1 (17.39 %)
FQ3 2011	0.79	0.78	●2 0.00 %
FQ4 2011	1.36	1.65	▲3 21.32 %
FQ1 2012	1.43	1.76	▲4 23.08 %

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Call Participants

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Executive VP & Chief Risk Officer

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Michael John Peninger
Former Chief Financial Officer and Executive Vice President

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Presentation

Operator

Welcome to the Assurant's Second Quarter 2012 Financial Results Conference Call. [Operator Instructions] I would now like to turn the call over to Ms. Melissa Kivett, Senior Vice President, Investor Relations. Please go ahead, Ms. Kivett.

Melissa Kivett
Former Senior Vice President of Business Development and Strategy

Thanks so much, and good morning everyone. We look forward to discussing our second quarter 2012 results with you. Joining me on Assurant's conference call are Rob Pollock, our President and Chief Executive Officer, Mike Peninger, our Chief Financial Officer, and Chris Pagano, our Chief Investment Officer and Treasurer.

Yesterday afternoon, we issued a news release announcing our second quarter results. Both the release and corresponding supplemental financial information are available on our website at Assurant.com.

As a reminder, all prior period financial information presented in the release supplement and on this call reflects the new accounting guidance for deferred acquisition costs, which the company adopted as of January 1st, 2012.

We'll start today's call with brief remarks from Rob and Mike, and Chris participating in the Q and A session.

Some of the statements we make on today's call may be forward-looking. And actual results may differ materially from those projected in these statements. Additional information on these factors that could cause actual results to differ materially from those projected can be found in yesterday's new release as well as in our SEC reports, including our 2011 Form 10-K available at Assurant.com.

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

Now I'll turn the call over to Rob.

Robert Brian Pollock
Former Chief Executive Officer

Thanks, Melissa, and good morning everyone.

Our results in the second quarter were strong. Our strategy to focus on growth in 4 targeted areas is working despite continued economic headwinds. We continued to return capital to shareholders via dividends and repurchase. Our activity demonstrates the long term value we believe our shares represent at current prices.

We are pleased with our performance against the 3 important financial metrics we've highlighted before. First, we reported an annualized operating return on equity excluding accumulated other comprehensive income, or AOCI, of 14.4% for the quarter. This includes $19 million of income from real estate joint ventures, and $10 million of losses from reportable catastrophes. Year-to-date, annualized results stand at 14.6%.

Second, growth in book value per diluted share excluding AOCI was 5.3% during the quarter. This brings the year-to-date growth to 9%.

Third, revenue, defined by net earned premiums and fee income, grew by over 2% year-over-year to $1.9 billion. Year-to-date, the increase is 1.9%.

Now let me comment on the businesses. In Solutions, despite a challenging global retail sales environment, our business continued to grow through the addition of new clients. We were pleased to announce our mobile protection program will be offered to T-Mobile's 4G pre-paid customers. In combination with Telefonica and the Sprint tablet program, it demonstrates our ability to find creative solutions for clients and consumers in this fast-growing segment.

In international operations, we saw a modest improvement in our combined ratio. We continue to monitor European results carefully given the economic uncertainty in that region.

In Specialty Property, we continued to see growth in both multi-family housing products and lender-placed insurance. While the overall inventory of mortgage loans again declined modestly, we continued to add new loan portfolios.

The programs and activities to prevent property foreclosures have caused our coverage to remain in effect far longer than we have seen historically or expected. As these loans resolve through foreclosure and short sale, which could accelerate, our premiums and earnings will decline.

Lender-placed returns will be lower than in the past, but as a specialty business, they will continue to be attractive. After Mike reviews the financial highlights for the quarter, I'll provide additional details and an update on the actions underway in our lender-placed business.

Assurant Health continues to make great progress in the post-reform environment. Health is offering affordable choice products for consumers, expanding distribution, and reducing operating expenses. As medical costs continue to increase, we believe consumers will find our affordable choice plans even more attractive. We are seeing the number of individuals covered under our programs growing.

At Assurant Employee Benefits, net operating income improved as all product lines had favorable experience. Our new agreement with United Concordia announced in June will expand our dental network, which is now one of the largest in the industry. Our growth priority at Benefits is on voluntary products, which represented more than half of our sales for the quarter.

Overall, we were pleased with our results, and believe we are well-positioned.

And with that, I'll turn it to Mike for more comments on the second quarter.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Thanks, Rob. I'll discuss a few second quarter highlights and priorities for each of our businesses, starting with Assurant Solutions.

During the second quarter, Solutions growth in net earned premiums and fees was led by Latin America and our domestic service contract business. The international combined ratio improved slightly versus the second quarter of 2011 after adjusting for non-recurring client settlement payments. The improvement was primarily due to better European underwriting results.

We previously announced the loss of a domestic mobile client. We now know that this contract, which accounted for about $100 million of annualized earned premium, will end on October 1st, 2012. As Rob mentioned, we are very pleased to add new accounts, which will begin the process of replacing the lost business.

Solutions remains very focused on achieving an annual return on equity of at least 14% by 2014, up from what's currently running at about 10.5% excluding disclosed items.

In this quarter's financial supplement, we've included additional information as an exhibit on Page 23 to give you more insight into Solutions' domestic, international, and pre-need returns.

Reaching the 14% ROE goal requires growth as well as rigorous expense control. The main drivers will be our ability to grow our mobile business and improve profitability in Europe. We also expect to be able to grow our pre-need and domestic service contract products while maintaining their attractive margins.

Specialty Property's results in the second quarter were strong. We added a new lender-placed client, saw our existing clients expand, and continued to see increased placement rates year-over-year. Reportable catastrophe losses of $9.8 million this quarter were down substantially compared to the second quarter of 2011, as was our non-catastrophe loss ratio, due to less severe spring weather.

During the quarter, we on-boarded the 2.1 million new loans we announced in the first quarter. These will begin to produce premiums in the third quarter. An additional 275,000 loans will be added in the third quarter due to a loan portfolio acquisition by one of our Specialty servicer clients. Since these policies will be flat cancelled, they will also begin producing premiums in the third quarter.

Placement rates remained elevated, reflecting experience on seriously delinquent loans. As the market resolves the backlog of delinquencies, placement rates will decline and reduce premiums and their contribution to our earnings.

Our lender-placed products currently account for about 70% of Specialty Properties premiums, and in the first 6 months of 2012, they accounted for just under 90% of the segment's income. Their percentage of total income can vary significantly depending on catastrophe, experience and other factors.

We saw good progress in our multi-family housing products, which achieved double digit growth in net earned premiums and fees. The results of our SureDeposit acquisition continued to exceed our purchase assumptions.

Assurant Health benefited from $13.9 million of after-tax real estate joint venture investment income. Results were strong even without this income as the business continued to focus on reducing operating expenses and expanding distribution.

Loss ratios declined due to favorable loss experience and a change in product mix as affordable choice plans become a bigger proportion of the business.

Second quarter expenses were down year-over-year by $12.9 million as we continue to streamline operations and improve our service to customers and agents.

Sales of supplemental products improved as more consumers expanded their health insurance coverage.

Individual market sales were up slightly as we continued to execute our network partnership with Aetna.

Small group sales continued to be slow as small employers remain cautious about changing carriers while the market adapts to healthcare reform.

Health had an excellent first half of the year. Going forward, certain provisions of the Patient Protection and Affordable Care Act will make the business more challenging, but we are very encouraged by our progress.

At Assurant Employee Benefits, net operating income improved in all major product lines, driven by very favorable loss experienced in disability and $1.9 million of after-tax real estate joint venture investment income.

While we were pleased to see improvement in our recoveries this quarter, we caution that incidence and recovery rates can be volatile from quarter to quarter. The disability environment remains difficult and maintaining this quarter's level of claim recoveries will be challenging.

Our dental experience improved this quarter, continuing the trend of the past 2 years. Life results were also good during the second, quarter driven by favorable mortality.

Earned premium decreased due to the previously announced loss of 2 assumed disability clients.

Overall sales were down 2% as increases in dental sales were offset by decreases in life and disability sales.

Our strategic focus on partnering with key brokers and our expanded product offerings continue to improve voluntary sales.

Moving on to corporate matters, we ended the quarter with $632 million in total holding company capital after returning $180 million to shareholders through repurchases and dividends.

During the second quarter, we took more than $183 million in dividends from our operating companies. And we expect our full year 2012 operating company dividends to at least equal operating company earnings. We believe our shares are a compelling buy at the current price and expect to continue our share repurchases during the second half of the year, though as always, our decisions around capital deployment will reflect a number of factors including our risk exposure and experience during hurricane season.

Our investment portfolio continues to perform well. We reported $29.8 million in pre-tax income during the quarter from 2 real estate joint venture partnerships. These investments demonstrated our continuing ability to find value in this specialized asset class.

Our low turnover investment strategy has helped us maintain yields, but like all insurers, we will continue to see yields decline in the current interest rate environment.

And with that, I'll turn it back to Rob.

Robert Brian Pollock
Former Chief Executive Officer

Thanks, Mike. Since our first quarter earnings call, regulatory attention on the lender-placed industry has escalated. We welcome the dialogue and understand the benefits that greater clarity on these matters will provide.

There is no single industry issue of greater priority for Assurant. We take to heart our responsibility as the industry leader in lender-placed insurance. That is why we are pursuing every opportunity to share our best practices, offer ideas to improve the product and processes, and incorporate input from regulators.

The on-going mortgage crisis in the U.S. continues to cause problems and concerns for many homeowners. But even during the crisis, it has been widely recognized that lender-placed insurance serves an important role in helping the mortgage industry to operate more effectively. Lender-placed products provide protection when voluntary coverage lapses or is unavailable to the borrower.

Insuring that appropriate insurance coverage is maintained on properties is critical, perhaps more so than at any other time in the history of the industry. Today, we want to share as much information as we can about actions we are taking to insure that Assurant remains the leader in lender-placed insurance and the current status of regulatory discussions.

Let me begin with the actions we have underway. To meet the changing needs of the lending and housing industries, we are working with regulators to introduce a next generation lender-placed product to address some of the unanticipated issues that have developed during the housing crisis. This product will combine flexibility and best practices to address the concerns of various parties, including: expanded geographic ratings within each state to further differentiate rates for properties more exposed to catastrophe damage from those where the risk is lower; added premium rated flexibility from deductible options that can be modified based on factors such as coverage amount and delinquency status; and continued enhancements to our already extensive customer notification process to make it absolutely clear to borrowers when they have lender-placed insurance.

As a proven leader with the systems and capacity to provide unique servicing capabilities for millions of loans, we want to help set the pace for a comprehensive, next-generation lender-placed solution. This is a message we are sharing with our clients as well as policy makers and regulators.

Let's move to updates on our discussions. At the national level, we have had several productive conversations with the staff at the Consumer Financial Protection Bureau. We have shared details of our operation and the practices we currently follow along with additional ideas for improvement. By September of this year, the CFPB expects to issue proposed regulations resulting from Dodd-Frank, which will address lender-placed insurance disclosures as well as other servicing issues.

We've met with the FHFA, Fannie Mae, and Freddy Mac to understand their views and have provided detailed analysis and recommendations for lender-placed programs. We've continued to speak with Fannie Mae regarding the RFP issued earlier this year. Based on our discussions with the GSEs, the FHFA, and the mortgage servicers, we believe we can help create a sustainable solution that meets the needs of all interested parties.

In August, we will participate in the public forum on lender-placed insurance being held by the National Association of Insurance Commissioners as part of its annual summer meeting. We will join other industry experts to explain the important role lender-placed insurance plays in safeguarding both homeowners and investors.

At the state level, in California, we have made the requested rate filings and have continued our dialogue with the Department of Insurance about our proposed rates. While we originally expected a decision in July regarding our filing, this process is now expected to take a little longer, and at this time, we do not expect a final approval until September.

In New York, we have submitted our next-generation product and met with the Department of Financial Services since the May hearings. With their input, we believe we can tailor a new lender-placed program to address specific issues pertaining to New Yorkers.

As I hope is clear, there is an enormous amount of work underway. We recognize that all the changes and ultimately a more normal housing market will mean that our lender-placed revenues will decline. And so, too, will our profits in this business. But we believe the returns, though lower than recent years, will continue to be attractive. The Specialty Property team in engaged at every level. We are doing everything possible to initiate in dialogue with regulators, provide value to mortgage servicers, protect homeowners and investors, and insure we remain the recognized leader in the lender-placed industry.

No one in the industry has the expertise, market presence, and operational capabilities to do what Assurant's lender-placed team does. Every day, we help homeowners and mortgage servicers by providing exceptional levels of quality and efficiency.
And with that, we can move into the Q and A portion of the call.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Chris Giovanni with Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Rob, thanks so much for those additional comments. Regarding, I guess, the product change, is this a proactive decision, or sort of a directive decision? And then, in terms of the delayed response from California, has there been sort of back and forth discussions between you and them, or are you just waiting for a response on their part?

Robert Brian Pollock
Former Chief Executive Officer

Sure. So I think in context, Chris, we have been looking and recognize that there have just been changes in -- caused by the housing crisis, and we are trying to take steps to adapt, and it's things we've been working on for a period of time to do that. So I think we've been proactive -- things always take a little longer maybe than you would like them to take, but it's things that we've been working on for a while. The -- all the things that we'd look at, I think, are set up to address and provide flexibility to a variety of different things we've seen as well as having been provided from, the GSEs, the regulators, et cetera. We're trying to take all of those into account, and fortunately, I think, we've got a new filing with the flexibility to do that. With California, again, we are engaged in the process. I just think it's just taken a bit longer than we thought. But I don't think there is anything you should read into the fact that it's been moved back a bit.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then the additional disclosure within solutions -- I mean, I think, very helpful. The international piece, I guess, is sort of the one area that obviously doesn't look like it's earning the type of ROEs that you guys would like, and you have clearly indicated a focus on it -- on improving that area. But I'm curious in your confidence given some of the pressures we are seeing in Europe in terms of one, growth, and then two, improving the international combine ration?

Robert Brian Pollock
Former Chief Executive Officer

Right.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I can take a shot at that, Chris. I think when we think about international, clearly we have focused on Europe as being the most challenging from a growth standpoint given the economic issues there. We have seen excellent growth over time in Latin America and in Canada. And so, our international businesses is a blend of all of those places, and so we have added new clients. The improvement that is going to drive that international ROE up is, I think, disproportionately going to come from Europe as we continue to address the underwriting and pricing issues there, and hopefully add some new clients. We are very focused on getting clients in our target areas, but if that doesn't happen, then we'll take the necessary actions on the expense side.

Robert Brian Pollock
Former Chief Executive Officer

So, yes, I -- just to add to that, Chris, because I think that was an excellent summary Mike provided, remember, our near-term goal is to get the U.K. to breakeven by mid ’13. So we’ve got a business that is dragging IOE there, and that’s step one in correcting that overall, and that will help quite a bit.

Operator

Our next question will come from Steven Schwartz with Raymond James and Associates.

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

A few questions here. It was mentioned that you’ve got a new portfolio coming onboard in the lender-placed business, 275,000 new loans -- that’s a flat cancel. Did you mention what the placement rate is on that?

Robert Brian Pollock
Former Chief Executive Officer

I don’t believe we did, but I think the important point is the one you hit on, that will be a flat cancel versus non-renewal, and we’re going to see premium producing in that portfolio in the third quarter, Steven. And we’ll have a good idea on what the placement rate will look like, because we haven’t boarded those loans yet. I think in contrast we’ve boarded 2.1 million loans, but -- and they show up in our totals, but those are going to produce business non-renewal. And because we have boarded them, we have an idea that their placement rate will be in that 1% range.

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

Right, yes, okay. So, that's the number that you gave us the first quarter. Okay, and then moving on, Rob, you made a statement, ACA -- some ACA regs coming on board will make the second half more challenging. Could you detail what those are?

Robert Brian Pollock
Former Chief Executive Officer

Sure. Actually, Mike made the comment, and I will let him talk a little bit.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I think -- PPACA has got some provisions relating -- primarily relating around experience credibility, Steven. You’ve got -- in our -- remember, the MLR calculation is state-by-state and legal entity-by-legal entity. So there’s an enormous number of cells in that calculation and there is credibility factors in the calculation if you're -- have a relatively small amount of premium in any cell. And so that has an impact on -- if your experience is better, you get the benefit of that to a certain extent when it is not credible, but as the PPACA -- as the years go on, there are provisions in the law where the credibility adjustment changes, making the target, the MLR requirement higher. So, sorry for -- it’s a relatively complicated calculation. Hopefully, that's a little bit clearer.

Robert Brian Pollock
Former Chief Executive Officer

But on that business, I think the important thing to remember is that -- Mike listed it: we’re ultimately going to have to -- our margin has got to come out of the difference between the loss ratio we need to provide and the premium we collect, and that will be a bound on what we can earn.

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

Right, right. And then, one more and then I will get back in the queue as well. Mike, the recoveries were good in DI. How was incidence in the quarter?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Incidence has remained pretty stable for us. We have seen that trend in the recent couple of years, Steven, that our incidence has remained relatively stable. It's been the recoveries that have been more of a challenge for us over time. And we had very good experience this quarter. I just reiterate what I said, that results on the recoveries particularly can be volatile from quarter-to-quarter.

Operator

For our next question we'll move to Mark Finkelstein with Evercore Partners.

A. Mark Finkelstein
Evercore ISI Institutional Equities, Research Division

I have a few. I guess you mentioned that the CFPB should have a -- something out in September. I'm just curious, is it your view that, based on the discussions you've held with them, that is will have fundamental changes in how this business is operated?

Robert Brian Pollock
Former Chief Executive Officer

Remember, the CFPB is very focused on the RESPA guidelines, Steven (sic) [Mark]. Which may well influence how servicers present information, et cetera. I think it's fundamentally going to be around disclosures, and we feel pretty good that our disclosures are good and we have some ideas on how to make them better.

A. Mark Finkelstein
Evercore ISI Institutional Equities, Research Division

Okay. New York and California are the 2 very public states. Can you just give us a feel for what's kind of happening in some other states -- for example, Florida or other states that maybe aren't quite as public as New York and California in terms of the lender-placed business and rate filings?

Robert Brian Pollock
Former Chief Executive Officer

Sure. We have regular filings and discussions with all the different states over time. I think we've tried to highlight the issues where -- we're having discussions around rate right now. So I don't see anything on the horizon particularly in Florida. We certainly have the issues where lender-placed is going to be discussed at the NAIC meetings. We welcome that opportunity because we think it will be an opportunity for all parties to present how the product works, the essential nature of the product. And it'll be able -- it'll allow us to show how we've been an innovator in other areas within the lender-placed industry at prior times.

A. Mark Finkelstein
Evercore ISI Institutional Equities, Research Division

Maybe just moving on. To go back to -- I think it was Chris's question, on the international ROE of 2%, you have the profit strain of the U.K. and some other underperforming businesses. You also have investment spend in Latin America and Asia, wherever. How do you think about that path of 2%? And how much is contributed from -- in terms of getting back to, call it, double digit returns or getting to double digit returns -- what is the path in terms of the pieces of the business that are underperforming versus the investment spend starting to subside?

Robert Brian Pollock
Former Chief Executive Officer

Okay. Mike, do you want to start, or...

Michael John Peninger

Former Chief Financial Officer and Executive Vice President

Well, I think -- again, Mark, we've got the issues in Europe that we're very focused on there. We have got targeted sales efforts that vary, targeted areas -- mobile, for example. And we're looking at expenses very closely in conjunction with that. So to the extent we're able to find clients in those targeted areas, that's great, that will help us, and we can get some growth there. To the extent the growth isn't there, then we need to address expenses in Europe. And so those are the primary focus in Europe, where growth is the most challenging for us. In Latin America, we've added new clients and there, to your point, we have added some -- or made investments in expenses to build up the capability to service that business. And remember also that we've got, to the extent that we sell service contracts, we've got the delayed nature of the revenue recognition. Because we don't recognize revenue on extended services contracts until the manufacturers' warranties wear off. So that business is going to slowly ramp up there. And so the challenge in Latin America, then, is to keep finding those new clients and then start to leverage that infrastructure that we've built there. So I think those are kind of the main things that I'd point to.

Robert Brian Pollock
Former Chief Executive Officer

Yes, I think that the Latin America situation, if you turn and look at China -- China we've had pure investment for a number of years. We announced the 5-star deal. It's mostly service contract business. But we now have what we believe is an embedded set of contracts on the business that are going to earn in the future. And I think Mike detailed how we've made a lot of progress on that in Latin America. We now have that going on in China as well. So we have some very developed markets, Canada and Puerto Rico; we have LatAm that we're making lots of progress on; we've got Europe that we've got to get to breakeven first; and we've got China that I think is also going to start being a future add to our earnings. So I think we've got every one of these buckets moving in a positive direction in that international area.

Operator

Moving on, we'll take a question from John Nadel from Sterne Agee.

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

A couple of questions. So all these conversations with the -- boy, it sounds like so much alphabet soup -- but with the GSEs that you've been having, I'm just wondering if you can give us any sense for where things may be headed there. For instance, I've heard that there have been some discussions about the GSEs potentially taking on near-REO properties in addition to the already fully foreclosed properties that we know they already self-insure. I was wondering if you had any thoughts on that.

Robert Brian Pollock
Former Chief Executive Officer

Well, I think the big thing, as we've talked to the different people, John, is just getting an alignment among the GSEs, as they're -- the FHFA is the regulator over both of those, if you will, or sets direction over both. And I think the first thing they're looking to do is just, "How do we get alignment and make sure some consistency is going on here?" I think that we've got a lot of unique capabilities that can help them with whatever solution they want to land on. And we've proposed a number of things to do that in terms of sitting down and showing them things we might do. So I think the real key is for them to just decide what they want to do, and we're trying to help them in that process.

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

Okay. And along those lines, Rob, in terms of some of the potential solutions or ways that it could change, I wonder, do you think there's any real potential that Assurant could be an insurance provider for the GSEs? I know they've been self-insuring now, I don't know -- for at least the history that I know about. I'm wondering if there's a chance that, that could shift?

Robert Brian Pollock

Former Chief Executive Officer

Well, it’s certainly something we've tried to talk to them about historically. I think they’re focused on other things right now, John. So we don’t want to give up on that, but I wouldn’t put that probably as what we’ve seen as the top of their list.

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

Okay. And then separately but still related to lender-placed, I’m just wondering, given the New York division seems so focused on the re-insurance arrangements with your servicer clients and it seems J -- I think, if memory serves, JP Morgan at the hearing indicated that they reinsure 75% of the premiums in your contract. I’m just wondering if there’s been any movement toward terminating those re-insurance arrangements?

Robert Brian Pollock
Former Chief Executive Officer

So -- again, we don’t disclose particulars of relationship with clients. All the deals are unique. That would require JP Morgan saying they want to do something different, John. As it relates to the department itself, remember, we’ve had our discussions. There were others who were at the hearing; I’m sure they’ve had discussions. But we’ve not been privy to any of those.

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

Okay, so would it be your expectation that ultimately re-insurance arrangements are terminated? Or, just don't know?

Robert Brian Pollock
Former Chief Executive Officer

I wouldn’t speculate on that.

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

Okay. And then finally on -- turning to health, I mean, obviously, a terrific quarter. Even if we take out the real estate income, it looks like sort of achieving that 4% or darn close to it, 4% after tax margin and north of 15% ROE. Mike, you mentioned in your opening remarks some additional provisions that were going to be coming on from the reform that might mean that this level of earnings is not necessarily sustainable. Could you just give us a little bit more help in understanding what’s coming on in the near term and how much of a pullback in earnings we should expect before we ramp back towards that 4%?

Robert Brian Pollock
Former Chief Executive Officer

Mike can give the details, but I want to go back and just provide a little color here, John. Remember, what we’ve said is, we think we can get to that 4% after tax margin once PPACA is fully implemented, which is after 2014. We said along the way we have a lot to do, but we can make progress as we go there. But understand the way that the PPACA legislation implements on a year-by-year basis. We’ve got to make progress and the legislation will push back at things a little bit, so we’ll have that to overcome. So again, I want to put it in the broad context of, I think we’re quite pleased with the progress we’re making, but we’ve got more progress to make. And then Mike, you want to talk a little about the…

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, maybe in a little more -- I mentioned the credibility issues earlier, John, but if you look at our loss ratio this quarter, I think it was in 73% kind of range in health. And if you think about -- I think we’ve talked on past calls, this idea that the MLR is 80% and that translates into something lower than that on a

GAAP basis because GAAP and MLR calculations are somewhat different. But if you think about -- business subject to the MLR is going to run probably a little bit higher than 75% -- 75%, 76%, 77%; somewhere in that range. Then you've got non-MLR business and that's where some of the affordable options that we talked about is going to run probably a bit lower loss ratio, and you start to look at a blend. And then the challenge going forward relating that I referred to on the call is primarily the credibility adjustment. To the extent that we have non-credible business, we're currently getting the benefit of some of that lower loss ratio if it runs better. But over time, we get less benefit from that as PPACA rolls out further over time. So when you've got to -- you've got to look at the blend of all these things when you think about what our loss ratio is going to be going forward. And I think the bottom line is, it's going to be higher than, say, the 73%. But that's why it's so important that we continue to sell new sales of the non-MLR products and continue the work we're doing to ratchet down expenses. That's how we sustain the returns.

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

What proportion -- just as a quick follow-up, what proportion of the in-force premiums or health segment reserves, or -- I'm not sure what way you might be willing to talk about this, but what proportion of that is the newer health access and non-MLR type products, at this point?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes. We haven't disclosed that, John. It's relatively modest at this point because these products are starting -- we've started to really focus on them the last couple of years in the post reform environment. So they're growing nicely, but they started from sort of a small base.

Robert Brian Pollock
Former Chief Executive Officer

But at some point in the future, that is something we will figure out how to disclose. I think the other one that just goes along with it, again, is, we're also pleased with the progress we're making with the Aetna networks in the comprehensive or PPACA world as well, and we think we'll have more of those sales in the second half of the year, too.

Operator

Next we move to Sean Dargan with Macquarie Securities for a question.

Sean Robert Dargan
Macquarie Research

In special property, I realize that the revenue guidance, I guess, for the year is going up. But, when we think about the steady state estimate that you put out earlier with a combined ratio of 84% to 88%, and expense ratio of 44% to 46%, is that still the way we should be thinking about this business in the out-years?

Robert Brian Pollock
Former Chief Executive Officer

I think that's a reasonable way to think about it. Let's just reflect for a second on all the changes we've seen that have been caused in the last few years. Because I think it's important, and we're trying to deal with all these factors as well. So, if you'd have gone back 3 years ago, we saw a huge consolidation of loan portfolios with the big players. Now we're seeing a deconsolidation and move to the specialty players. So, that's a fundamental difference that's taking place. Second, we're in a situation where delinquent loans have remained high, causing placements to be high. Third, we've seen voluntary carriers reducing their exposure in CAT-prone areas, and we're seeing out exposure in CAT-prone areas increase. So, all these factors are causing us to look at the business a little bit differently than we have in the past. We do feel the big issue on resolution of these delinquent loans and their movement to either foreclosure or short-sale is likely going to cause our revenues to come down. I have not been very good at estimating that, via the placement rate, on what's -- when that's going to happen, because it's just very difficult to predict.

But we do understand that ultimately a normalized housing market will lead to lower earnings, and -- but we’re still going to have good returns in the business.

Sean Robert Dargan
Macquarie Research

Now, I realize those -- you said those returns will be "lower" than they have been. Can you give us any idea...

Robert Brian Pollock
Former Chief Executive Officer

I think -- we tried to provide that guidance, Sean. We said, "Look at the combined ratios; combined ratios' going to go up a little bit." And you can think of that in a couple of different ways. One is, our other products don’t have as attractive of combined ratios, as the lender-placed product has had. The second thing is, some of our expenses in Lender-Placed are fixed. Our tracking system -- the costs of running that tracking system are not going to go down when we have fewer policies in force.

Sean Robert Dargan
Macquarie Research

Okay. And just a follow-up about the real estate JV income. I think that’s the first time it's showed up in a number of years. Do you expect to see more of that in the near future?

Robert Brian Pollock
Former Chief Executive Officer

I’m going to turn it over to Chris, because I think he can provide some good color here.

Christopher John Pagano
Executive VP & Chief Risk Officer

Sure. Let me make just a couple comments, because as you mentioned, we haven’t talked about the real estate portfolio in quite a while. When we think about real estate, we think of it as kind of a specialty asset class for us. And, we’ve been in the business for the better part of the last 20 years. It’s a very small part of the portfolio. If you look at the end of the second quarter, the book value of the real estate portfolio was a little less than $240 million. It doesn’t produce consistent quarterly GAAP income, and you see that in the supplement. It’s the main reason we don’t include it when we give you investment yield calculations. No, the approach that we take is very bottoms-up, opportunistic. We don’t have set timetables around acquisitions and dispositions. The 2 partnerships that made up the $29 million of income this quarter, one was in the portfolio less than 2 years, and the other was in the portfolio almost 12 years. So, what we do focus on though is, long term value, cash-on-cash return, and we’ve been very successful at it over the years. Going forward, just to give you an estimate, there’s probably about $55 or $60 million of value in the current portfolio that over time we’ll be able to monetize. But there’s no set timeframe around how long that’s going take. Again, we want to be opportunistic, we want to let market conditions dictate the investment strategy. The other thing to remember, though is, it’s cash return. $19-plus million of after-tax profit came into the company last quarter. And I look at that as deployable capital, which we’ll ultimately be able to get up to the holding company and use either for buybacks or to fund profitable growth opportunities.

Operator

Our next question will go to Edward Spehar with Bank of America.

Edward A. Spehar
BofA Merrill Lynch, Research Division

A few questions. I guess, specifically on New York, you -- are you going to provide us at some point, do you think, at anytime soon in terms of what type of rate reduction or sort of targeted margins you might be thinking about on this new generation of your product?

Robert Brian Pollock
Former Chief Executive Officer

The first thing we've tried to do Ed, is bound the premium that will be subject to things. I think we've identified that as $63 million in the state of New York. Obviously, we're having discussions and when we have resolution, we definitely will let people know where things have landed.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Do you get any sense -- you've given us some good detail on sort of the timeline or expectations around California. Do you have anything similar that you can provide at this point for New York?

Robert Brian Pollock
Former Chief Executive Officer

I don't believe I do, Ed. But when we have something, we'll certainly provide it.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Okay. And then a related question is, the NAIC meeting. Does it -- is there any specific agenda that they have or any proposals that have been put forth by anyone to be discussed there? Or is it pretty open-ended type of…

Robert Brian Pollock
Former Chief Executive Officer

Yes, I think it's an open forum. Both sides will be represented in the discussions. And I think that there's just been a general interest to learn more about the lender-placed industry. The good news to me is, we have a number of people within the NAIC who are quite impacted and see the need for capacity of lender-placed insurance, and they'll be there as well.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Okay. So, no -- there's not -- it's not like, "yes" or "no" with minimum loss ratios or anything like that?

Robert Brian Pollock
Former Chief Executive Officer

No.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Okay. And then one last question. With regard to the International ROE in Solutions, can you give us any sense just roughly where that ROE would be if we thought about Europe in sort of a normal economy or economic recovery type of scenario? Not necessarily targeted ROEs in Europe or anything else, but just if the environment was a little more normalized?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, I think the improvement in Europe is going to come from a combination of -- some combination of growth and expenses, Ed. And I don't think we're prepared at this point to tell you -- to split the equity, the international equity, which is sort of, I think, what you're asking. But we can say that the bulk of -- if we think about -- you can sort of see from our disclosure and do the numbers, how -- that the International ROE has to come up from this current 2% if we're going to get to the 14% target we're focused -- and most of that, I think, is going to come out of International. And that, in turn -- most of that is going to come from Europe.

Robert Brian Pollock
Former Chief Executive Officer

I think -- maybe a way to think about it, Ed, is we, I think, previously provided the losses we had in the U.K. I can't remember what that was, but I think we said about $35 million -- to just think about that going to breakeven.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Okay. So something similar type of magnitude to that?

Robert Brian Pollock
Former Chief Executive Officer

Right. Now recognize, we've made progress; it's not at $35 million anymore. But there's still -- we're not going to breakeven till the middle of next year.

Operator

We move now to Jeffrey Schuman with KBW.

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

I was wondering if we could talk a little more about some of the concepts you mentioned for the next generation Lender-Placed product. I'm a little slow, so I could use a little help there. So, for example, the expanded geographic rating, I guess the idea is you would -- the rating would be more sensitive to levels of CAT exposures. Is that the basic idea?

Robert Brian Pollock
Former Chief Executive Officer

That would be one of them. I mean, I think -- let's start and go back historically. This has been a very simple product, and one of the things -- one of the reasons for it is, we wanted to be differentiated from the voluntary market. We take all comers. And the basic genesis of it was in a different time, in the housing industry. When we sit down and look at things, there are things we can do differently, and a lot of it really relates to an ability to do things in concert with our mortgage servicers. So, for instance, we have got to have interface and system capabilities to address different things. You brought up geographic rating, and we think that's one of them. Clearly, if you look at some of our coastal areas, being able to offer different rates on the coast than inland, that certainly makes sense to us. Okay? But you can also get into, well, maybe they want something else different. Maybe they want deductibles that vary by the value of the home. Okay?

Christopher John Pagano
Executive VP & Chief Risk Officer

Or delinquency status.

Robert Brian Pollock
Former Chief Executive Officer

Or delinquency status. These are all things we've looked to figure out how to build into the product in response to just things we've heard from different constituents.

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

Yes. I guess it's not immediately clear to me. I mean, does this -- it sounds like some of this responds more to some things that servicers are looking for. Does this somehow also address some of the regulator concerns, and does -- do these kind of changes have an obvious directional bias to your revenues and earnings?

Robert Brian Pollock
Former Chief Executive Officer

Well, a couple different things. We're trying to respond to everyone. So, the servicers are our clients, and we're -- first we have to have enabling capabilities to respond to what's going on. And the good news is, we have the systems and infrastructure that can deal with a lot of these things. That's quite important. In some cases, the servicers may have limitations with how their systems operate to deal with things. Then you have the ideas being offered in by the GSEs or the regulators. We're trying to provide a comprehensive solution that can respond to all those things. And so -- again, when that housing market normalizes, when we put the new product out there, we know in total our earnings are going to be smaller, but our returns are still going to be good.

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

Okay, that's helpful. And just one other thing: On the kind of state by state regulatory read, it sounds like outside of New York and California you're not having the same types of conversations. I'm wondering if that at this point is more of a reflection that those states have reviewed the issue, and are fine with the rates. Or is it more the situation, as we see in some cases, that the smaller departments sometimes defer to the leadership of California and New York and might sort of draft off the outcome there?

Robert Brian Pollock
Former Chief Executive Officer

Again, I think, let's take a starting point here. And the starting point to me is, there's a recognized kind of thought process that there's an essential need for this product. How it prices can be debated, but the need for the product is uniform. Everyone sees that it's essential to making mortgage lending in the housing industry work. We've had conversations with many regulars. I couldn't name them, I'm sure. So, that's not the point, but these are the 2 that are front and center, and we're trying to engage in active dialogue with them and get to a solution here, and we think the new product can be a big part of that.

Operator

Our next question will come from Mark Hughes with SunTrust.

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

I don't know if you'd care to throw out a number, but if you did give full credibility to some of these loss numbers in the various states, how much would that impact the overall loss ratio -- you could say, if all this was taken immediately?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I think you've got to look at the loss ratio that we present, Mark, the 73%, as I said. If you think about fully credible MLR business running somewhere in that above 75%, as I said, you're going to have -- our overall aggregate loss ratio is then going to be a blend of that MLR business and the non-MLR business. So the number would move depending on the mix.

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

And then if I did all that math, where would I come up at?

Robert Brian Pollock
Former Chief Executive Officer

I -- we don't have that with us right now, Mark. I mean, we can try and look to provide further insight on that in future calls. But I think that, more important thing is to remember that fully comes into effect in 2014. So -- and Mike pointed out, we're doing 260 calculations to calculate all the rebates because they vary by legal entity, they vary by state, small group, individual. It would take a fair amount of work to do that and we just don't have it with us right now.

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

Exactly. Understood. And then how about the -- in the benefits business? Any comment on underlying pricing? Assuming your employee count or customer count stays steady, what are the pricing trends generally?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I think that certainly the market is raising prices on disability, Mark, in response to the interest-rate environment and some of the challenges in incidence and recovery that various carriers are seeing. I think we probably started a little bit earlier than some others, but I think that renewal rates are definitely going up. I hesitate to put out a number, but we're getting a meaningful -- meaningful increases in renewal pricing.

Operator

And our last question is coming from Chris Giovanni with Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Thanks so much for the follow up. Just a question on capital management. I guess -- you mentioned $380 million of deployable capital. And when we look back over the past couple years in the periods where concerns around regulator inquires and specialty property kind of crop up -- going back to the fall of 2010, I guess, with the banker article last summer and then, the second quarter of this year, and you look at the corresponding activity that you guys did with share repurchases. You were repurchasing 160 million at share prices in the, call it, in the $32 million to $34 million range. So when we think about the pace of share repurchases going forward, should we be thinking when shares are at this level, that's the level of share buybacks we should be assuming? Or should we say, "You know what, this is a sustainable rate", just given how much deployable capital you guys currently have?

Robert Brian Pollock
Former Chief Executive Officer

Yes. And just a quick comment. First, we've tried to reiterate, we see the share price as very attractive. I think Mike and I both said that; I think Chris said it too. And we tend to buy through 10B51 programs. We try and take into account the current situation when we set that 10B51 program into effect. Chris, you want to provide a little more color there?

Christopher John Pagano
Executive VP & Chief Risk Officer

Yes, I guess a couple comments. I mean, again, when I think about share repurchase, certainly buying back at current prices is a prudent use of deployable capital. There's no question about that. But the goal here is to be disciplined about returning capital, be in the market consistently and also, as we head into CAT season, be careful about maintaining what we've talked about and called a "seasonal buffer". So as we head into wind season, we're going to probably -- we're going to need to likely hold more than the $250 million capital buffer that we've talked about. In terms of the pace or the degree at which we're buying relative to share price, we're not trying to market time. The goal in the use of the 10B51 program is to allow us to be in there consistently through blackout periods and again, returning the capital to the shareholders. The other thing to keep in mind is that, even given the significant amount of repurchase activity over the last 18 months or so, shareholder's equity x AOCI, has not changed at all. Okay? So this is as much a cash flow profitability story as it is a repurchase story.

Christopher Giovanni

Goldman Sachs Group Inc., Research Division

Okay, and then just as a quick follow up, is there anything going -- I mean, a lot is going on in the regulatory side. Is there anything that you guys see on the horizon that could preclude you from repurchasing stock? Or is your 10B5 program basically diminish the risk there?

Christopher John Pagano
Executive VP & Chief Risk Officer

Well, the way we like to run the repurchase program is, put 10B51 programs in place to get us through blackout. When we go into the next open period, we recalibrate our outlook for capital and then put another program in that will take us to the next blackout period. Now again, keep in mind that also spans quarter end, so it's difficult to link quarterly repurchase activity to the programs that we put in place. But if we do find ourselves in an open period, blacked out for a reason other than earnings, then that's going to affect what's going on.

Robert Brian Pollock
Former Chief Executive Officer
Thank you for joining us today. We look forward to updating you on our progress next quarter.