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Assurant, Inc. NYSE:AIZ

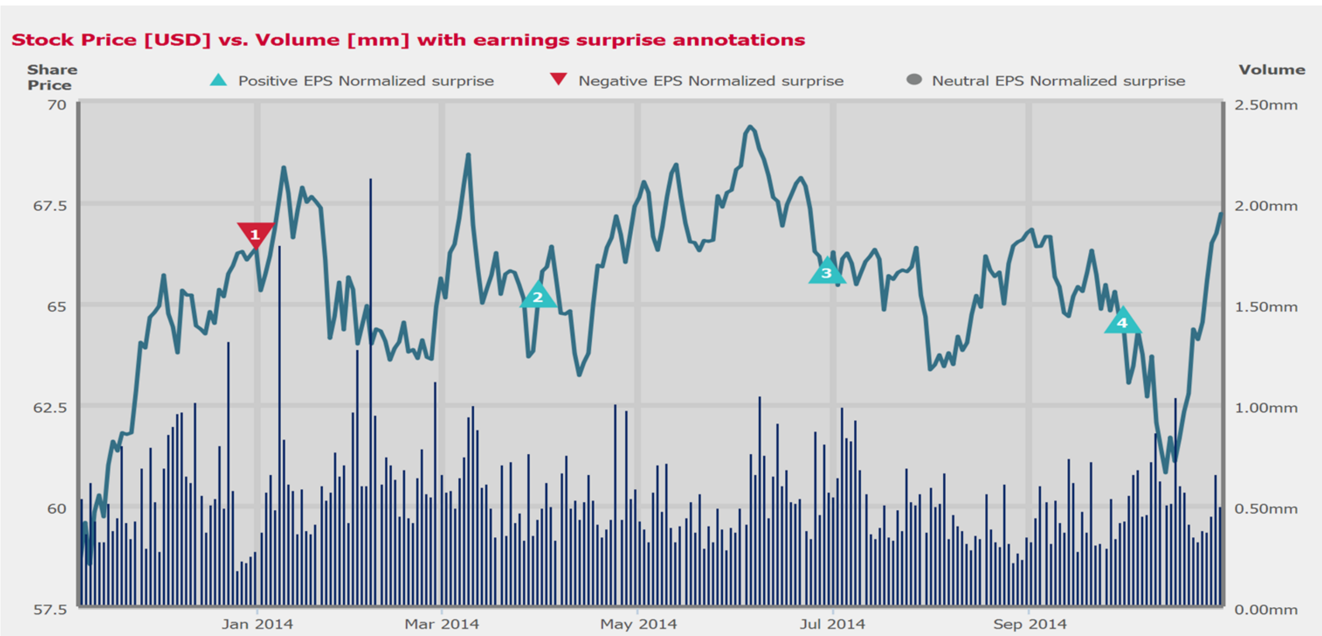
FQ4 2014 Earnings Call Transcripts

Friday, February 13, 2015 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.66	0.87	(47.59 %)	1.60	6.78	6.00
Revenue (mm)	2570.09	2622.69	2.05	2434.86	10329.06	10381.65

Currency: USD
Consensus as of Feb-13-2015 12:30 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	1.43	1.42	1 (0.70 %)
FQ1 2014	1.55	1.68	2 8.39 %
FQ2 2014	1.54	1.62	3 5.19 %
FQ3 2014	1.61	1.82	4 13.04 %

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

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

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

Sean Robert Dargan
Macquarie Research

Seth M. Weiss
BofA Merrill Lynch, Research Division

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

Presentation

Operator

Welcome to Assurant's Fourth Quarter 2014 Earnings Conference Call and Webcast. [Operator Instructions] It is now my pleasure to turn the floor over to Francesca Luthi, Senior Vice President, Investor Relations and Corporate Communications. You may begin.

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

Thank you, Tiffany, and good morning, everyone. We look forward to discussing our fourth quarter and full year 2014 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 2014 results. The release and corresponding financial supplement are available at assurant.com.

We'll start today's call with brief remarks from Alan and Chris before moving to Q&A.

Some of the statements on today's call 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 2013 Form 10-K and third quarter 2014 Form 10-Q.

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

Now I will turn the call over to Alan. Alan?

Alan B. Colberg
President, CEO & Director

Thanks, Francesca, and good morning, everyone. In 2014, we made progress as we adapted to the changing marketplace and built additional capabilities to drive profitable, long-term growth. While we are disappointed by weaker-than-expected earnings in the fourth quarter, we are taking decisive actions to improve profitability. We see great opportunities ahead as we pursue our aspiration of sustained out-performance for our customers, employees and shareholders.

In 2014, we generated strong free cash flow. In support of our strategy to grow and produce attractive shareholder returns, we invested $162 million to complete 4 acquisitions. We returned $296 million to shareholders through buybacks and dividends. And we ended the year with $560 million of holding company capital.

For the year, we delivered 9.7% operating ROE, excluding AOCI, below our target, due largely to an operating loss at Health. Book value, excluding AOCI, grew by 9% compared to year end 2013.

We are pleased with our top line results. Revenues increased 16% to $9.7 billion, through a combination of organic growth and acquisitions. The key drivers of this performance were our targeted growth offerings, which now account for a quarter of total revenue. More importantly, earnings from these product lines tripled year-over-year. We will continue to shift resources toward these targeted areas as we believe they will drive growth in earnings and cash flow longer-term.

Our recent divestiture of American Reliable Insurance Company is another example of our actions to realign capital to support our long-term profitability objectives. I want to thank the American Reliable employees for their service and the seamless transition to Global Indemnity.

During 2014, we also broadened our specialty insurance products with additional, adjacent fee-based services related to a variety of risk events.

Across Assurant, we generated more than $1 billion of fee income for new and existing offerings, an increase of 76% from 2013. These results demonstrate our progress in building a stronger Assurant for the future.

As we adapt to market changes, we must accelerate our efforts in 2015 to achieve profitable long-term growth. As an enterprise, we will focus on 3 strategic priorities: First, we will innovate faster around the end consumer to generate organic growth; second, we will continue to drive operational excellence to become more efficient, while delivering outstanding customer experiences; and third, we will maintain our commitment to disciplined capital management.

We view our stock as attractively priced and we'll balance investing in our businesses with returning capital to shareholders. We are working hard to achieve these strategic priorities.

Let me now share updates on each segment. Assurant Solutions delivered exceptional results in 2014 by offering innovative programs across the mobile value chain in the U.S. and a number of international markets.

As we look ahead, mobile remains the largest growth opportunity for Solutions. Our acquisitions of Lifestyle Services Group in 2013 and CWI Group last October enabled us to expand our global footprint in distribution. We will continue to consider select investments to enhance our competitive position.

As smartphones, appliances and other consumer electronics intersect, Solutions is focused on providing comprehensive protection through our Connected Living platform.

Our expertise in the warranty and mobile business, coupled with our broad distribution, uniquely position us to deliver integrated solutions to our clients. For example, we recently partnered with Claro, Brazil, one of the largest mobile operators in Latin America, to introduce a smartphone upgrade plan that includes device protection. This program enables consumers who otherwise could not have purchased those devices to join the connected world.

As competition intensifies across the industry, there will be additional opportunities to expand our market share. But occasionally, we will lose business. Recently a client notified us of its decision to transfer their tablet protection program to an affiliated company, starting in the second quarter of this year. While we are disappointed to lose this business, we believe our tailored solutions in the mobile value chain and superior customer service will continue to be key differentiators in the industry.

Preneed is another important business for Solutions and remains a solid performer. While widespread flu this season could increase mortality, we expect Preneed to grow, as we benefit from SCI's expanding share of the U.S. funeral market. These opportunities at Solutions, along with our disciplined investments, will help us build on last year's success.

Let's now look at Assurant Specialty Property. This segment benefited from another year without significant hurricane activity. Property took many steps last year to drive operational excellence while moving resources toward our targeted growth areas. Our alignment with leading mortgage servicers remains a key differentiator and competitive strength for Property. As expected, the normalization of lender-placed insurance will pressure results near-term.

In 2014, we started to invest in initiatives to standardize our lender-placed platform to increase efficiency. We expect these investments and ongoing actions to generate net savings later this year and beyond to help maintain specialty returns.

Our strong capital position allows us to invest in targeted areas to drive profitable growth and diversify our business model. We are pleased with our progress thus far. Our acquisitions of Field Asset Services, StreetLinks and eMortgage Logic, which now comprise our mortgage solutions business, are performing ahead of our revenue expectations. We're capturing market share and now expect to generate $300 million of fee income from these acquired businesses in 2015.

At Assurant Health, 2014 marked a year of substantial change with the introduction of guaranteed issue and the public exchanges under the Affordable Care Act.

For the first time during an open enrollment period, we participated on exchanges in 16 states. Individual major medical plans sold both on and off the exchanges drove significant sales increases in the fourth quarter. While we are encouraged to see our products resonate with consumers, our focus must remain on driving profitability and achieving specialty returns.

The loss for the year was disappointing, and reflected persistently high ACA claims experience.

As we have noted, mandated coverage extensions introduced after the industry had set 2014 pricing drove higher overall market morbidity and significantly affected results.

In response, we've taken action. Effective January 1, we implemented plan design changes and increased premium rates substantially for all 2015 ACA policies. We also lowered commission levels in certain distribution channels across several states to further manage risk. We believe the actions we are taking, along with ongoing expense discipline, should improve results in 2015.

Assurant Employee Benefits results were driven by overall favorable experience and growth in voluntary products. Revenue from this targeted area increased by 12%, well in excess of the market. We believe voluntary will remain the growth engine at Benefits, as employers shift more of the selection process and benefits costs to their employees.

As the market continues to evolve, Employee Benefits will partner even more closely with Health in a number of areas. For example, the segments are looking at opportunities to leverage their broad distribution networks and sales programs. They are also evaluating operating efficiencies to improve the customer experience and strengthen returns.

As I've moved into the role of CEO, I'm energized by our employees as we strive to make Assurant stronger for the future. Across the organization, we are accelerating our actions on multiple fronts to enhance efficiency, to invest for long-term profitable growth and to prudently manage capital for the benefit of shareholders.

Now Chris will review results for the quarter and our outlook for 2015 in more detail. Chris?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Thanks, Alan. I'll start with Solutions, which delivered another strong quarter. Net operating income was $58 million, $36 million higher than the prior year. Continued growth in covered mobile devices and favorable domestic loss experience drove results.

We also recognized $5 million of income from client marketing programs, a decrease from prior years.

Results also benefited from operational efficiencies due to the restructuring efforts that we began in 2013.

Net earned premiums and fees were nearly $1 billion, as we delivered more integrated services in mobile, an area that we have targeted for growth.

In our core business, higher revenue from vehicle service contracts and production at a domestic service client also contributed to the strong quarter. Declines in non-growth areas, such as domestic credit, tempered growth, and overall Solutions revenue was partially offset by foreign exchange pressures in Canada and Latin America.

For the full year, Solutions delivered record top line and earnings, far exceeding our expectations. In 2015, we expect revenue and earnings to remain level with the prior year.

Growth in our mobile and vehicle service contract businesses will offset the loss of a tablet program, which accounts for roughly $100 million of annualized premiums and fees.

In addition, there is potential for a decline in client marketing income. As we continue to expand our business globally, we also anticipate near-term foreign exchange headwinds. We will continue to invest in mobile and other core products to enhance our competitive position as non-growth areas contract.

Now let's look at Specialty Property. In the quarter, net operating income was $71 million. This compares to $108 million in 2013, which was a near-record quarter due to higher-than-average renewals and new lender-placed portfolios.

There were several factors contributing to the year-over-year earnings decline, including lower placement and premium rates, margin compression from the previously disclosed loss of business and higher non-catastrophe losses, including claims from hail storms early in the quarter.

Net earned premiums were $595 million, down 9% from 2013. The market and client factors mentioned earlier, along with uneven timing of loan additions and renewals, drove the decline.

While overall revenue at Property was down, targeted growth areas contributed approximately $140 million in the quarter. Premiums from multi-family housing grew 20% year-over-year as we expanded our distribution. Fee income rose 80%, primarily from acquisitions and market share gains in mortgage solutions.

For the quarter, Specialty Property's expense ratio increased 530 basis points, of which nearly 400 basis points was due to our shift toward fee-based products and services. The remaining 130 basis points relates to lower lender-placed premiums.

In 2015, we expect further declines in revenue and earnings at Property due to the normalization of lender-placed insurance and the sale of American Reliable. The potential for increased catastrophe activity could also affect results. The initiatives under way to lower expenses in the lender-placed area and expand margins for mortgage solutions will help mitigate some of the declines with net savings expected in the latter part of this year. Importantly, these actions will help us maintain attractive returns long-term.

Turning to Health. The net operating loss of $37 million was driven by higher-than-expected loss experience on ACA policies, which was only partially offset by risk-mitigation programs. During the quarter, Health adjusted its accruals under these programs to reflect higher claims and increasing market morbidity.

As a reminder, risk adjustment recoverables are based upon each carrier's risk relative to the market.

In the fourth quarter, we accrued $9 million under this program, a lower amount compared to the third quarter 2014, reflecting higher overall market risk. Recoverables under the reinsurance program totaled $133 million for the period.

For the full year, our total estimated recoveries from the risk mitigation programs were approximately $400 million. The expense ratio at Health declined 370 basis points year-over-year, as we benefited from greater scale and continued operational discipline. As a reminder, results for the quarter included $5 million for the ACA annual insurer fee. This required annual expense will increase from $20 million to $28 million in 2015, and is non-tax deductible.

During the past several months, we've taken aggressive steps to drive toward our long-term profitability goals. While the market will continue to evolve, we expect results to improve this year.

At Employee Benefits, fourth quarter earnings declined to $7 million, primarily due to lower disability recoveries compared to 2013. Given the low interest rate environment, we reduced our discount rate 25 basis points for new long-term disability claims beginning October 1. We will continue to monitor interest rates and take additional actions as needed.

Benefits expense ratio decreased 60 basis points reflecting premium growth. As with Health, expenses include the health insurer fee. In 2015, Employee Benefits share will increase by $2 million to $8 million for the full year.

Overall, we expect voluntary to grow in excess of the market once again in 2015.

At the same time, we will take further actions to lower our general expense ratio toward our long-term target of 23%.

Moving to Corporate, we ended December with $310 million in deployable capital. During the quarter, we paid $71 million for the CWI Group, we returned $20 million to shareholders in the form of dividends, and we repurchased $102 million worth of stock.

Overall, for the full year 2014, the company repurchased 3.3 million shares, or nearly 5% of our common stock outstanding. This year, through February 6, we've repurchased an additional 529,000 shares for $35 million.

Total segment dividends in 2014, net of infusions, were $450 million below earnings as we funded growth in Health. We expect 2015 segment dividends to approximate segment operating earnings. As always, this is subject to rating agency requirements.

Capital releases from lender-placed insurance will help fund organic growth in other product areas. The proceeds from the sale of American Reliable will provide additional flexibility to deploy capital.

In 2014, the Corporate loss declined $15 million to $68 million, reflecting lower employee benefit and acquisition-related expenses compared to 2013. We expect additional reductions this year as we implement other expense initiatives.

Fourth quarter results also included an $8 billion reduction in the amortization of a deferred gain related to an annuity business we sold in 2001 through reinsurance. This had no impact on cash flows and does not change the total amount of amortization over the life of the contracts.

While the investment portfolio continues to perform well and our low turnover strategy has helped us preserve book yield, a prolonged low interest rate environment will result in further declines in investment income.

Before we open the line for questions, I want to mention an upcoming change to our financial reporting that we will implement in the first quarter. At the company's IPO, goodwill on our balance sheet was held at Corporate, as the majority of it related to legacy transactions.

Starting this year, the $840 million of goodwill at Corporate will now be included on segment balance sheets, $540 million at Solutions and $300 million at Specialty Property. This will have no impact on Assurant's consolidated results.

In 2015, our focus remains on executing our strategic objectives as the markets evolve. We believe the actions under way across Assurant will help us deliver long-term profitable growth to our shareholders. And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is coming from John Nadel with Sterne Agee.

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

I guess the first question is for you, Alan, on Health. In your outlook commentary and in your prepared remarks, as well as Chris', we should see improved results in 2015. I'm just wondering how we should think about quantifying that? Last year, management said that the Health segment would be modestly profitable in 2014 and yet it lost $64 million. I recognize a lot has changed, but I'm trying to understand in terms of order of magnitude, what kind of improvement you're actually expecting to see in 2015. Should that loss be cut in half? Should all the actions taken get this business back to modestly profitable that quickly? How do we think about that?

Alan B. Colberg
President, CEO & Director

John, I appreciate the question, and let me just start with a commentary on what happened in 2014. Yes, you're correct, that was our expectation going into the year with the pricing that we put in place. As we've talked about, the rules changed after we set pricing and after the whole industry set pricing. That dramatically altered the risk pool in 2014 and made the market much sicker than had been expected.

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

No question, yes.

Alan B. Colberg
President, CEO & Director

That's what really influenced 2014 results. Now the good news about 2015 is it's a new cohort. We were able to raise our prices aggressively and appropriately to reflect the experience we expect will happen in 2015. We made significant plan design changes really by analyzing what happened in '14 and trying to address any adverse selection effects. You saw the commission reductions we took to moderate sales. And with our ongoing expense discipline, we think results will improve in '15 with the goal of profitability.

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

Okay, okay. And then maybe to help folks, Alan, maybe a weighted average or some way of thinking about -- you said significant rate increases for 2015. Can we get a sense for that, even if it's a ballpark?

Alan B. Colberg
President, CEO & Director

Well, it's early to know what will happen in 2015. But our rate increases on average were in the double digits and closer to 20%.

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

And then a question -- a couple of questions on Specialty Property. I'm curious how we should be thinking about the non-cat loss ratio. And I'm asking because there's actually been quite a bit of volatility on a quarterly basis in that non-cat loss ratio during 2014. I think a couple of quarters looked like it was pretty favorable, a couple of quarters maybe unfavorable. How do we think about what a reasonable run rate is? Or a starting point as we start to think about the negative consequences of further premium rate reductions working through the book?

Christopher J. Pagano
Executive VP & Chief Risk Officer

John, it's Chris. So a couple of things, remember the ratio is going to be a function of lower premiums coming through, so we're going to see that drift a little bit higher. When I think about cat versus non-cat, there are some weather events that don't qualify for cat. So in the fourth quarter, in particular, we had some hail storms that were not -- didn't meet our definition of cat but were weather nonetheless, so $5 million to $7 million in the quarter, in particular. So -- and then again, as we move through the normalization of lender-placed and properties are in foreclosure for longer, you're going to see slight drifts higher in the non-cat loss ratio.

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

Okay, all right, that's helpful. And then just one last one for you on Specialty Property, the placement rate. I'm just curious, this fourth quarter was the quarter you lost that 600,000 loans track that -- it seemingly had a pretty high placement rate, I think we were estimating somewhere around 7.5% to 8% placement rate on that block that left you in the quarter, and yet the overall segment placement rate only dropped 5 or 6 basis points on a sequential basis. Is there some catch-up we should expect to see as we move into calendar '15, or is there something else at play there?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, I think -- so a couple of things. So there's always going to be a little bit of a mismatch. That's a point in time estimate with respect to the placement rate. The block will flow through over time, so you will start to see it drift a little bit lower. But again, going back and in context, it's the normalization of the lender-placed business that's going to produce this decline in placement rate. I think we've talked about 1.8% to 2.1%, longer-term, and again if you look at the continuum, you're starting to see that come into play.

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

Okay. And then one last sort of overarching question on lender-placed. There is seemingly no end to the turmoil at Auckland [ph] and some of its related affiliates. I understand you guys have a pretty deep relationship with them on the lender-placed side. I'm just wondering, can you give us any color on what kind of impact, if any, you believe -- any outcomes or any radical outcomes with Auckland [ph] could place upon you?

Alan B. Colberg
President, CEO & Director

Yes, John, we're not going to comment on a specific client. I think the important thing to remember as you think about our lender-placed business, is we play across all of the different parts of that industry and all the different types of servicers, and so we're well aligned with whatever might happen in the marketplace and well positioned to be still the provider of choice in lender-placed.

Operator

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

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

How much capital would you anticipate might come free in the Specialty Property business on top of earnings?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So we've given some long-term guidance around that, kind of 52% to 57% of net earned premium over time. Again, keep in mind, as you think about the Specialty Property business in aggregate, you're going to see the freeing up of capital from lender-placed, redeployment in the targeted growth areas around mortgage solutions in particular, multi-family housing. And then don't forget ARIC, the sale of ARIC released a significant amount of capital. I think long-term, even with goodwill being held at Property, the $300 million, we still think 20% ROEs are possible and are targeting that. And I think that again meets our definition of specialty.

Alan B. Colberg
President, CEO & Director

And Mark, let me just add on to Chris' comments just a couple of thoughts on capital management the way I think about it, which is we have a very strong portfolio of businesses that generate substantial free cash flow. And as you saw, we expect that to approximate segment earnings this year for us. That combination creates real value for our shareholders. And we have, I think, a good track record of deploying that capital effectively. And as I said in the prepared remarks, I'm committed, we are committed to continuing to balance returning capital to shareholders with appropriately investing in future growth. And I think you see evidence of that over time.

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

And then the $400 million that's receivable from the government, could you talk about the -- your confidence that you've done the -- you've done this properly? Is there some question about that? Are there some assumptions that you've had to make? How much confidence should we have that, that money will come to you?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, so again, that $400 million has got 2 pieces to it, so you've got $275 million or so in the reinsurance recoverable, which is a mathematical calculation, $45,000 retention. And then the co-participation up through $250,000 on claims, feel a high degree of confidence in that number. The risk adjuster, we have confidence in our own number, but it is our risk score relative to the market. And I think that's where there's a little more of an estimation process that we have to go through. Every quarter that goes on, we get more information not only on our own block, but on the rest of the market as third-party providers are aggregating data. And again the numbers are best estimate as of year end.

Operator

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

Seth M. Weiss
BofA Merrill Lynch, Research Division

First, I want to ask a couple of questions on Health and first, Alan, you mentioned the goal of profitability in 2015. Is this the same as a target of profitability? And I don't mean to split hairs here; I'm just trying to level set for 2015.

Alan B. Colberg
President, CEO & Director

Yes, I think the decisive actions we've taken so far, we expect results to improve. We're going to monitor very closely with Health how things develop as the year goes by. And we will take additional decisive action but it is a goal of profitability.

Seth M. Weiss
BofA Merrill Lynch, Research Division

And my biggest question on Health is the question of the risk adjusters. And I understood the -- I understand the pressure from the extenders on 2014 and how that gets corrected on 2015. This quarter, it seemed to be that the accrual of the adjuster was a large reason of the underperformance. That is seemingly a very difficult thing to predict when you're trying to predict the health of the broader risk pool. How critical is that adjuster accrual in your pricing and goals for 2015?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Well, again, the risk adjuster, in terms of the aggregate recoverable we've got for 2014, it's a little more than a quarter. So the reinsurance recoverable is the larger piece where we have a higher degree of confidence since there's no market estimation involved there. But again, the way I think about it is all of the participants have an interest in understanding the market risk so that they can properly estimate the -- their risk relative to the market. But it is -- there is some estimation in there. We feel pretty good, but again it's the first time through. And then again, 2015 is a different story.

Alan B. Colberg
President, CEO & Director

Yes, Seth, I think it's important to tell the tale of the 2 years because they're different. 2014, the industry had an expectation of a risk pool that was changed after the fact by the extenders. 2015, we're able to look at an expected risk pool. There hasn't been any intervention to change that expected risk pool so far. So again it's an estimation. But 2015 may be a very different year for market morbidity than 2014 was.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Is it fair to assume that within your pricing assumptions, given the pricing action that you've taken and the change in cohort that you described, is it fair to assume that your reliance on the risk adjusters next year is significantly less than what you had assumed the reliance would be in 2014?

Alan B. Colberg
President, CEO & Director

Yes. It's hard to say for sure. There are a couple of things going on with the risk programs that we need to be careful as we think about 2015. One is the Reinsurance program is gradually phasing out. It phases out completely after 2016. With the risk adjuster, it really is going to be a function of what the market morbidity is. Now our ACA block is substantially bigger in 2015 as the market switches to the metallic plans. So the risk adjuster program remains very important to us as we go through the year.

Seth M. Weiss
BofA Merrill Lynch, Research Division

And then one question just on the increased insurance fees, I just want to make sure I'm understanding this correct. This is a direct hit to the tax line, right? So that's after-tax impact that you've given and no impact to the expense ratio. Am I thinking about that right?

Christopher J. Pagano
Executive VP & Chief Risk Officer

The fee is not tax deductible, but we are allowed to price for it in our rates.

Operator

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

Sean Robert Dargan
Macquarie Research

I have a kind of a big-picture question about Health. You have a target for profitability in 2015. It's not generating cash flow that's being dividended up to the holding company. I'm just wondering, how hard would it be to just walk away from this business? Is there political pressure to stay in this business? Or what's preventing you from just stopping renewals and freeing up capital?

Alan B. Colberg
President, CEO & Director

Sean, we're -- I'm not going to speculate on what we might or might not do with Health over time. We have a commitment to our shareholders, though, that we're going to be in specialty businesses that can generate specialty returns. We are constantly looking at Health and whether we can achieve it under the new reality of the ACA world. We're going to take action. You've seen us take action. We're going to continue to take action. And we'll take the appropriate action if it's not a specialty business over time.

Operator

The last question is coming from the line of Steven Schwartz with Raymond James & Associates.

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

I got a few. Just spinning on the risk adjusters. Do you have -- what did you base this on? Do you have industry data already that you can look at and use, not only figure out for this year but use for next year?

Alan B. Colberg
President, CEO & Director

Yes, there's a company called Wakely, a third-party provider who's been aggregating the industry data over the course of 2014 and providing it to those participants. So we have been adjusting our accrual based upon how our estimate of our risk score relative to the market data as provided by Wakely.

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

Okay. Presumably the extenders coming in, they're going to be more healthy. On the other hand, you have this big push. I mean, there are healthcare.gov ads on every day here in Illinois. You see that kind of offsetting? More people who weren't in the program last year, probably less healthy; you got the extenders, they're probably more healthy.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, I mean, I guess our basic premise is the first people to participate in health care were the least healthy and that the -- as the block grows, it will become, in aggregate, healthier. And that's been the premise that we've operated under since the beginning.

Alan B. Colberg
President, CEO & Director

Yes. And I think it's important, Steven, just one other comment. I think it's important as we've thought about that, we've really worked hard in the plan design and with the pricing to reflect what we think is going to happen. And then we've used the commission changes that we made to try to get the sales in the places where we want them to be.

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

Okay. Is it -- I guess, the one thing I'm looking at is who knows how things work out this year with all the new people coming in. But at some point, you get to a stable market. Everybody is in who is going to be in. I mean, at that point these things become much easier, no?

Alan B. Colberg
President, CEO & Director

Yes. We expect -- I think the industry expects the market to normalize beginning more -- it's already -- will -- should normalize somewhat in '15 just without the extenders. By 2016, 2017, it should become a more predictable, more normalized market.

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

Okay. All right. And then one more in Health before I move to something else. The health membership was down. It wasn't down last year in the fourth quarter, individual health membership. This is not making sense to me.

Christopher J. Pagano
Executive VP & Chief Risk Officer

So a couple of things. So there is just a little bit of attrition that goes on during the course of every calendar year. And then more importantly, the -- when we record sales in a quarter, the insureds do not go into the count until they pay their first premium. These are all Jan 1 effective dates, so there is going to be the first quarter, fourth quarter lag is what you're going to see. And then you'll also see the effect in the first quarter of the fact that open enrollment is -- continues on through February 15. So just a timing issue there.

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

Well, I get that, and that was explained last year, how there were the big sales and there wasn't that much growth in membership. But here was a -- here was an actual decline, which did not happen last year. I mean, where did these people -- what products did they leave from, and where did these people go? Or did they -- they didn't stay naked for a couple of months.

Christopher J. Pagano
Executive VP & Chief Risk Officer

So I think -- so keep in mind, the other thing you have to remember, first quarter of '14, significant number of sales that offset the normal course attrition. And then there are other events, people who get -- who are unemployed get -- find a new job, they go into a group plan, et cetera. So I mean, I think the volatility in this is really normal course. But again, the trend here is increased sales of individual medical in the metallic plans and that's what you're going to see coming into play in '15.

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

Okay. Do these people leave -- I mean, where did most -- what plans do these people mostly leave from? Was it mostly the access health and they're going to healthcare.gov?

Christopher J. Pagano
Executive VP & Chief Risk Officer

I don't -- We don't have that information, sorry.

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

Okay. All right. And then one more, the tablet loss in Specialty Property, you said this is -- I mean, I don't know a whole lot about this business, but I think of tablets, I think of Apple, I think of Samsung, I think of Microsoft or whoever. Is that the case here? And you said to a sister company, an affiliated company, is -- are they -- do they have captives that they're reinsuring this themselves? Is that what's going on?

Alan B. Colberg
President, CEO & Director

Yes. Effectively. This was not competitive, which is the important point, and it's being moved to an affiliated insurance company of one of our former clients.

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

Okay, so is this a trend? Do a lot of these companies -- I mean, do a lot of these companies have captives that can and will do this?

Alan B. Colberg
President, CEO & Director

No. I think the reality has been, over time, the market is moving the other way. And you see that with the success of our mobile business. We have made real progress over the last few years. I think we've built a very strong franchise there. Our pipeline of potential new clients is very robust. You do get into special circumstances occasionally, and that's what this was. But again, at the end of the day, we feel good about the momentum in the mobile business and how it's going.

All right, well, thanks, everyone, for participating in today's call. We look forward to updating you on our progress throughout the year. And as always, please reach out to Francesca, Suzanne and Jisoo with any follow-up questions. Thanks.

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