S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

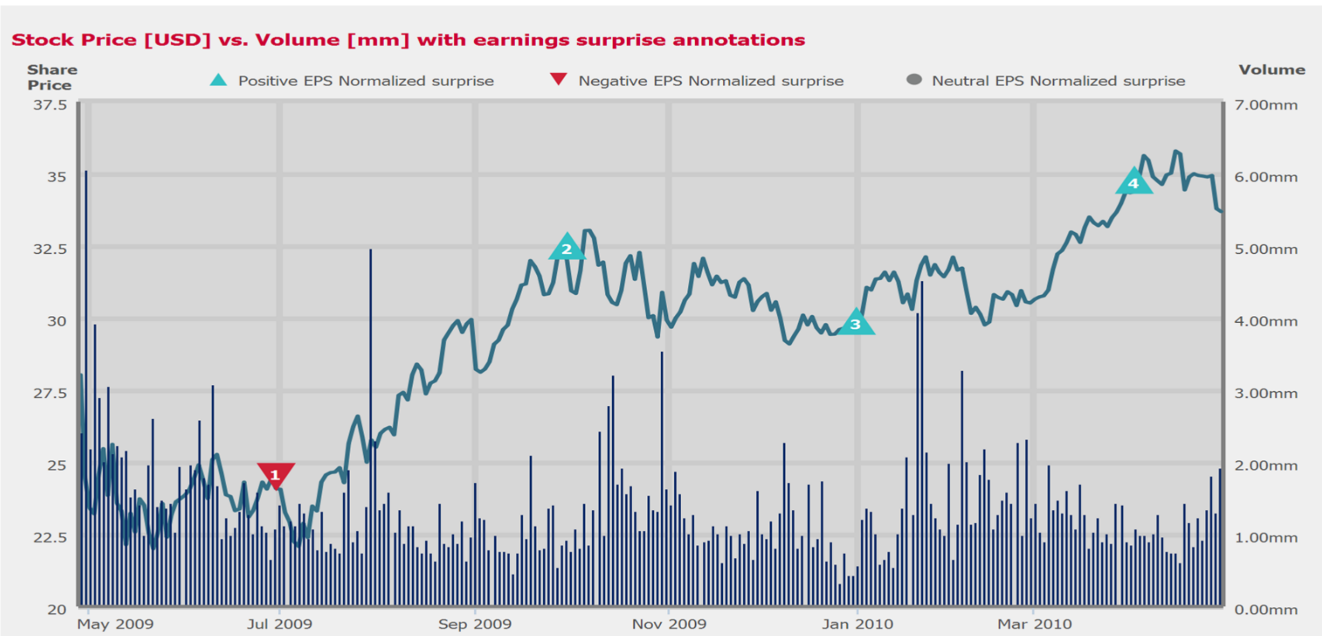
FQ2 2010 Earnings Call Transcripts

Thursday, July 29, 2010 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2010-			-FQ3 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.16	1.35	16.38	0.99	4.75	4.84
Revenue (mm)	2134.51	2140.29	0.27	2112.22	8551.35	8381.48

Currency: USD
Consensus as of Jul-29-2010 12:05 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2009	1.19	0.84	(29.41 %)
FQ3 2009	0.93	1.07	15.05 %
FQ4 2009	1.00	1.16	16.00 %
FQ1 2010	1.04	1.32	25.71 %

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Call Participants

EXECUTIVES

Christopher John Pagano
Executive VP & Chief Risk Officer

Melissa Kivett

Mike Peninger

Rob Pollock

ANALYSTS

Ed Spehar
Bank of America/Merrill Lynch

Edward Spehar

Jack Sherck
SunTrust

Jeff Schuman
KBW

John Nadel
Sterne, Agee

Mark Finkelstein
Macquarie

Steven Schwartz
Raymond James

Vinay Misquith
Credit Suisse

Presentation

Operator

Welcome to the Assurant's second quarter 2010 financial results conference call. All participants are in a listen-only mode. After the prepared remarks, we will open it up for questions. Instructions will be given at that time.

Now, at this time, I would like to turn the call over to Ms. Melissa Kivett, Senior Vice President, Investor Relations. Please go ahead, ma'am.

Melissa Kivett

Thanks Michelle. Welcome to Assurant's 2010 second quarter earnings conference call. Joining me with prepared remarks are Rob Pollock, President and Chief Executive Officer of Assurant; Mike Peninger, our Chief Financial Officer.

Prepared remarks will last about 20 minutes and then we will open up the call to questions. Chris Pagano, our Chief Investment Officer and Treasurer, is also here for questions.

Yesterday we issued a news release announcing our second quarter 2010 financial results. The news release, as well as corresponding supplemental financial information is available on our Web site at assurant.com. Some of the statements we make during today's call may contain forward-looking information. Our actual results may differ materially from those projected in those forward-looking statements.

We caution you about relying on these forward-looking statements and direct you to consider the discussions of risks and uncertainties associated with our business and results of operations contained in our 2009 Form 10-K and subsequently filed forms 10-Q and 8-K, which you can find on our Web site. Assurant undertakes no obligation to update or revise any forward-looking statements.

Additionally, the presentation will contain non-GAAP financial measures, which we believe are meaningful in evaluating the Company's performance. For more detailed disclosures on these non-GAAP measures, the most comparable GAAP measures, and a reconciliation of the two, please refer to yesterday's earnings release and the supplementary financial information that we have on our Web site.

Now, I'd like to turn the call over to Rob Pollock.

Rob Pollock

Thanks Melissa. Good morning, everyone. Our results for the first half of 2010 are solid. We are achieving year-over-year profit improvement because of disciplined decision making and our ability to adapt and better position our businesses.

Actions include redesigning products, reducing expenses and when necessary adjusting prices. We are adding new clients, retaining existing accounts and finding opportunities in the areas we have targeted for growth. Overall, we are encouraged and believe our year-to-date results demonstrate the strength of our specialty strategy.

Let me begin by providing some financial highlights on the quarter as well as our outlook for the year. In the second quarter, we generated an annualized operating return on equity of 12.7%. All of our businesses saw results improved from the similar period in 2009. Specialty property led results for the quarter.

We are building long-term value for our shareholders as demonstrated by a 3.8% increase in our diluted book value per share during the quarter and a 7.3% increase since year end. This excludes the impact of accumulated other comprehensive income or AOCI.

During the quarter, we took advantage of what we believe is an attractive share price by repurchasing 6.1 million shares for about $215 million. We also paid $18 million in dividends as we increased our quarterly dividend to $0.16 per share. This is the sixth consecutive year we have raised our dividend.

So in total, we returned $233 million of capital to shareholders during the second quarter. In July, through the 23rd, we've repurchased an additional 910,000 shares for slightly less than $33 million. We have slowed repurchase activity as we enter hurricane season.

We ended the second quarter with $575 million in corporate capital, up about $100 million from the end of the first quarter. This includes about $80 million in capital, we were able to free up in our Solutions business.

Remember, we're holding a $250 million capital buffer for tail-event risk leaving $325 million in deployable capital. For the year, we expect to dividend all of the businesses' earnings to corporate unless there are material changes to A.M. Best capital formulas. Overall, our solid capital position continues to provide us with a sufficient buffer against risk and great financial flexibility.

Now let me make a few comments on the business results and our future outlook. Assurant Specialty Property had another terrific quarter. We added the new client with $550,000 subprime loans. We also benefited from our partnership with a specialty servicer who added subprime loans to their portfolio. In combination, these two wins help mitigate the macro trends of declining loan originations and subprime loans outstanding.

At Assurant Solutions, we continued to see improvement in the U.K. operating results. Our international combined ratio improved 50 basis points from the first quarter, slightly below our goal. However, we've added several new clients in Latin America and incurred some costs associated with adding them. We still expect the fourth quarter international combined ratio to be in the range of 103 to 105, which is consistent with our previously discussed targets.

The slowdown in consumer spending continues to hurt retail sales. However, we are finding new clients, both internationally and domestically, to increase our sales. Finally, our OEM and wireless strategies have us well positioned for long-term growth, especially when consumer spending rebounds.

Moving to Assurant Employee Benefits, our results were good as experience continues to be favorable. However, small business clients continue to be challenged by a difficult economic environment. In order to achieve efficiencies, make our products more competitive and position the business for growth, Employee Benefits made the difficult decision to reduce its workforce, to make the Company stronger moving forward.

Even in this difficult environment, we've been able to grow through Disability RMS, our alternative distribution channel. We continue to invest in our voluntary capabilities to remain positioned to meet employer and employee needs for the long term.

At Assurant Health, we are seeing improvement in the core business due to the pricing and product actions we've discussed with you in the past. The key long-term question at Assurant Health revolves around our response to the impact of health care reform.

During the second quarter, we completed an extensive review of our Health business, and considered a number of possible future strategies for the business. Three critical themes emerged from our work.

First, we believe there is a significant opportunity in the individual medical marketplace. Second, although the dynamics and characteristics of the post-reform market are different, they will still require specialty expertise. And third, we believe we can earn attractive returns in the business over the long-term without making large commitments of corporate capital. With the approval of our Board, we are moving forward with our comprehensive business plan to position ourselves for what we believe the future will be.

All of the healthcare reform transition rules are not in place. As of September 24, several new provisions go into effect. Others, including new minimum loss ratio requirements, begin in January 2011.

We've already filed new product offerings that will be available to both new and existing customers. We also know that modifications in how we operate will be necessary. We will need to lower the cost of doing business. And while agents will continue to play a critical role in distribution of our products, they will need to do it even more efficiently in the future.

Last month, we announced the Don Hamm, will retire in January and Adam Lamnin, currently Chief Operating Officer, will move into the role of President and CEO at Assurant Health. Adam is a great example of the deep leadership bench we have within our Company. He has been responsible for the development, marketing, pricing, and selling of Assurant Health's products for the last year. Since March, Adam has led our Health Care Reform Working Group which has built the roadmap for how we will operate moving forward.

Together, Don and Adam are executing on this plan for the future and restructuring the business for the changes necessary for success. Remember, we have a long history of successfully adapting to changes in the marketplace. As always, our commitment is to pursue the best course of action for the benefit of our customers and shareholders.

With that, I will turn it over to Mike who will talk further about the operating results for each business. Mike?

Mike Peninger

Thanks Rob. We referred to our efforts to streamline and target growth opportunities and in-depth look at our second quarter results for each business demonstrates our progress. I will start with Assurant Specialty Property, which produced another strong quarter with improvements in both loss and expense ratios versus the second quarter of 2009.

The loss ratio improved for the quarter and the year despite nearly $5 million of catastrophe related after-tax losses from the recent Tennessee storms. As a reminder, we had no reportable catastrophes during 2009.

Even after adjusting for restructuring charges in the second quarter of 2009, expense ratios improved for the quarter and the year him due to efficiency gains and reduced commission expenses associated with additional premium ceded declines.

Net earned premiums for the quarter and six months were level after adjusting for the unearned premium reserve change we disclosed last quarter. Growth in creditor-placed homeowners, creditor-placed flood and renters insurance was offset by lower real estate owned premiums.

In addition, and as we discussed at year-end, changes in certain client contracts are causing increased amounts of creditor-placed homeowners premiums to be ceded to clients.

We are very pleased to announce that we will add 730,000 new subprime loans later this year. In addition to the new client Rob mentioned, an existing client added 180,000 new loans from an acquisition. These loans will be added to our portfolio in the fourth quarter and will begin to gradually produce premium in the first quarter of 2011. We will also see premium production beginning in the third quarter from an 80,000 loan subprime portfolio we won in the fourth quarter of last year.

From a loan count perspective, these additions will be partially offset by the loss of 550,000 prime loans later this year, which are transferring to other services. The loss of these loans will not have a significant impact on our revenue due to the low prime penetration rates.

So while we still expect our credit replaced revenue to decline in the future as the housing market recovers, our new clients will help mitigate the impact of a declining mortgage loan inventory, particularly in subprime loans.

During the second quarter, we announced the completion of our 2010 catastrophe reinsurance program and complete details are available on our Web site. We also added a table detailing the geographic distribution of our total insured values on page 12 of our financial supplement. Overall, we are very pleased with Specialty Property's results for the first half of the year.

I'll now turn to Assurant Health, which reported improved results for the quarter and six months, as corrective pricing and plan design changes reduced loss ratios and we realized savings from 2009 expense initiatives. Net operating income for the quarter increased versus second quarter of 2009. The current quarter includes a $17.4 million after-tax benefit from the settlement of a previously disclosed Colorado lawsuit for less than the original judgment.

Second quarter 2009 earnings were negatively impacted by a $9 million charge for reserve strengthening. Net earned premiums were flat for the quarter and down year-to-date. High lapse rates driven by the increasing cost of medical coverage continued to negatively impact our results.

Total sales of individual medical policies were down slightly for the quarter versus 2009 due to modifications to some of our products in response to health care reform, and we're up slightly for the six months. While total sales are flat, the split of our sales by product is changing dramatically.

We are seeing tremendous growth in sales of our Health Access plans, which provide more affordable coverage to consumers desiring access to the health care system and a corresponding reduction in sales of more traditional major medical products.

As Rob described, Assurant Health made significant progress during the second quarter and is well on the way toward adapting its business model for the new environment. We will refine our strategy as the regulations affecting our business are issued.

Next, I'll turn to Assurant Employee Benefits, where net operating income rose slightly for the quarter and increased significantly for the six-month period compared to 2009. We have experienced very favorable disability incidents, fewer challenges in transitioning claimants back to work, and excellent life mortality this year.

We continue to see modest improvement in dental loss ratios due to pricing actions taken in 2009. Net operating income for the quarter was reduced by a $4.4 million after-tax restructuring charge related to our workforce reduction, compared to a similar $1.5 million charge in the second quarter of 2009. This reduction will ultimately lower Employee Benefits' annualized expenses by $12 million.

Net earned premiums for the quarter and six months of 2010 grew as a result of the addition of the previously disclosed Shenandoah Life Block and assumed business from clients at Disability RMS in 2009. The new DRMS clients in Shenandoah accounted for $30 million of premium in the second quarter and $65 million for the six months, and are on track to add $100 million of premiums for the full year.

While we're pleased with our second quarter results, remember that the low frequency, high severity nature of our life and disability products can cause loss ratio severity from quarter-to-quarter. We believe our voluntary products and services are well suited for the current challenging environment for small businesses.

I'll now turn to Assurant Solutions, where second quarter results were leveled with the same period last year after adjusting for the second quarter 2009 restructuring charge of $2.4 million. I should also note that the Solutions' tax rate has been high in 2010. Due to changes in the mix of our earnings by country and increases in state income taxes, it is likely to remain elevated for the next several quarters.

Second quarter results benefited from improved underwriting experience in the U.K. and cost savings realized from expense reductions in the fourth quarter of 2009. We continue to believe, we will see reductions of 100 to 200 basis points per quarter in our international combined ratios.

While we have seen modest sales growth at a handful of clients, we are still not seeing a meaningful pickup in retail sales in the U.S. Domestically, total gross written premiums are down as credit business continues to run off.

Despite weak consumer spending, sales for domestic service contract business increased. New client growth including a one-time assumption of $11 million of premiums in the quarter and increased vehicle service contract sales contributed to the quarterly increase. It's important to remember that gross written premiums in the second quarter of 2009 included $29 million from a one-time campaign with Ford Motor Company.

International gross written premiums grew by more than 18% during the quarter due to new client additions in Latin America and favorable foreign exchange rates.

Net earned premiums for Solutions were down for the quarter and the first half of the year; however, international net earned premiums for the first half of the year increased 17% due primarily to growth from both new and existing clients in Canada and Latin America.

Domestic earned premiums decreased due to the impact of lower service contract written premiums in 2009 and the continued runoff of business in areas we are not targeting for growth. Preneed continues to be a strong performer for Solutions. Operating income excluding the impact of the CPI CAP was up over 20% in the quarter and 40% for the six months versus the comparable periods in 2009.

Second quarter sales in our Canadian preneed business were up substantially versus 2009. The increase was driven by the impact of a higher consumer tax rate that went into effect July 1 in certain provinces. This change added about $50 million of state sales during the quarter to the normal run rate for Canada. We have a strong business model in preneed and our sales outlook is positive as our partner, SCI continues to expand its market share.

In summary, we are pleased with Solutions' results for the quarter and its efforts to grow its client roster in a challenging economic climate. We continue to focus on managing expenses and improving the profitability of our international business.

Turning now to Corporate, results reflect an after-tax restructuring charge of $3 million due to a corporate workforce reduction. This will decrease our annualized expenses by approximately $11 million. Our corporate areas support our businesses, and these reductions are consistent with efforts to achieve efficiency across all areas of Assurant.

Moving to the balance sheet, our investment portfolio appreciated by $334 million from 2009 and we had $604 million of net unrealized gains at June 30, 2010. We generated $19.1 million of net realized gains during the quarter, including $1.9 million of other than temporary impairments

Our investment income has stabilized increasing modestly during the past two quarters, as we are finding attractive risk-adjusted yields compared to holding cash.

In summary, we are pleased with second quarter and first half year results. We made significant progress on many of the initiatives that we have discussed with you in the past and look forward to continuing our progress in the second half of the year.

With that, I'll turn the call back to Rob.

Rob Pollock

Thanks Mike. Let me recap with a few comments about 2010 before we move to Q&A. We are refining the customer needs in a changing environment with a variety of new products across our Specialty platform. We're not waiting for the economic recovery as we work to grow our business, as seen by new client additions in Specialty Property, Solutions and Employee Benefits.

We are becoming more efficient with $23 million in expense reductions to better position our businesses for the future. We continue to grow and manage our capital to enhance flexibility, protect against future risks and deliver value to our shareholders. To summarize, we are demonstrating notable progress in 2010.
At this time, I would like to open the floor for questions. Operator, we're ready for questions.

Question and Answer

Operator

(Operator instructions). Vinay Misquith, Credit Suisse.

Vinay Misquith
Credit Suisse

There has been some news lately about the potential for Balboa being sold. Could you provide us some metrics as to what you look at in terms of ROE accretion or earnings of book value accretion when looking to make an acquisition?

Rob Pollock

Sure. Well, let me start in general, Vinay, and say, we can't comment on any specific deal, but we've said we are always looking to grow our business both organically and opportunistically through acquisitions. Historically, we said, we'd either build our current Specialty businesses out or look for new niches through our M&A area, and we have very disciplined criterion for how we look at things, and let me turn things over to Chris Pagano and he can outline some of those things.

Christopher John Pagano
Executive VP & Chief Risk Officer

Yes, the valuation methodology starts with, as with any alternative we look at, it doesn't make sense strategically, how does it fit in with the Specialty strategy. The next criteria we look at is the purchase price, does it produce the return that's in line with our target expectations for the risks we're taking on, which is at a minimum, the excess of our cost of capital, which right now is probably somewhere in the 10% to 12% range. We also look at deals based upon cash flows, what is the internal rate of return, and if we find that to be an attractive opportunity, we then start to think about the GAAP reporting issues.

The other thing we think about is our financial situation. Again, what is our current capital position? Do we have flexibility to do a deal? But the deal has to stand on its own merits. The fact that we can make an acquisition doesn't mean that we should or that we will. So, again, the common element here is discipline when we think about M&A and the capital position that we're in.

Vinay Misquith
Credit Suisse

Would it be fair enough to assume that with the excess capital and debt capacity, you have more than $1 billion of capital…

Christopher John Pagano
Executive VP & Chief Risk Officer

If you look at what we have available at the end of the second quarter in terms of deployable capital, it's about $325 million, as Rob mentioned. When I thinking about debt capacity, I think about what do we have available to make an opportunistic capital rise. Right now, we've got a 17% debt to total cap. We think there is probably 5% or 6% of additional debt capacity that we can take on at this point, which is about somewhere in the $500 million range, but the fact is we have no need for that right now because we have a source of capital in the form of the operating earnings that we've been able to dividend up to the holding company.

Debt capacity as it relates to a specific use of proceeds is a different discussion. It's one that involves collaboration with the rating agencies, discussions about short-term and long-term debt ratios and plans for what the capital structure look like going forward. I can tell you when we think about our capital structure, we have tremendous flexibility to if we do identify a deal that makes sense to further optimize our capital structure and that puts us in a very good position going forward.

Vinay Misquith
Credit Suisse

Should we expect a reduction in the near term of your stock repurchase program just while you evaluate opportunities?

Christopher John Pagano
Executive VP & Chief Risk Officer

What we've done and you can look at the most recent 10b5-1 program that we put in place in early May, we were buying at a more aggressive pace through the second quarter, in July, which is really just about disciplined capital management recognizing we're going into hurricane season and we want to make sure that we have sufficient capital to protect the balance sheet in the event of an active storm season.

We don't comment on our programs going forward, but I can tell you that we will make an assessment as we go into the open period based upon earnings expectations, our ability to access those dividends and where we think we will be going forward. But we do feel pretty good about our ability to get at the operating earnings for the rest of the year.

Vinay Misquith
Credit Suisse

Second question on the Health Insurance segment. The expense ratio went down to 29%. Was that because of a one-time issue or is it because of expense actions being taken and do you expect that to go down more in the future?

Mike Peninger

Well Health has been working for quite some time on their expense ratios, Vinay. They took some actions last year and we're starting the process of adapting the business model as we talked about the health care reform scenario. So there are lots of different moving pieces there. We feel good about the progress Health is making and their results are trending in line with what we talked to you in the past about. We've instituted variety of changes over the course of the year in response to the experience problems of last year.

Vinay Misquith
Credit Suisse

Have you taken rate reductions now in September for next year assuming that you need to have an 80% MLR already?

Mike Peninger

Well, we will be starting to adjust our new business rates in the fourth quarter. On the renewal block, which, of course, is the much bigger portion of our business now, we're sort of looking at all the dialogue going on at the NAIC level, and as you know, the transition rules have not yet been defined by HHS, and so, once we get clarity on what those rules are, we will make our pricing decisions going into next year.

Rob Pollock

But all of these things Vinay that Mike just outlined I think provide a good example of our adapting to what's going on and show our ability to be very nimble and pivot to changes in regulation in the marketplace.

Operator

Mark Finkelstein, Macquarie.

Mark Finkelstein
Macquarie

You've probably spent all day on Health, but let me just ask you a couple of specific questions. One, can you actually just talk a little bit about how you're thinking about a pricing strategy in Health, in a MLR scenario that will be coming into plan. I guess what I'm asking is, when you re-price this business, are you essentially re-pricing to the minimal loss ratio level, or are you going to be setting across states materially below that with the assumption that you end up giving back, some of that back to a policyholders?

Rob Pollock

Well, just a couple of things. One, I think when you look at things; the game is different, right? The game used to be minimized the combined ratio. Now the thing is operate within the realm of what's available to the Company. So that's the difference between whatever you collect and however the minimum loss ratio is defined. So I think it's probably prudent to put yourself in a position where refunding has benefit over not pricing for enough, Mark.

Mark Finkelstein
Macquarie

Are there any states where you're currently over the 80% or, what, minimum loss ratio by kind of the new calculation?

Rob Pollock

We don't know what's the new calculation is, so that's difficult to know, we certainly look at our experience in each of those separate jurisdictions, but again, it's a bit premature until a little bit more is decided here. I guess one additional factor into that question is really the credibility. If you've got very incise blocks by State 2 and I think some of the working groups at the NAIC are talking about how to adjust for credibility, but I come back and say, okay, we've just gone through the big study and our belief is there is a room for a very vibrant market here where we think we can earn good returns.

Mark Finkelstein
Macquarie

I guess maybe just a press on that, what are good returns in this world?

Rob Pollock

Sure. Well, we've looked historically at things where the returns on equity would be in the 20% range.

Mark Finkelstein
Macquarie

Even without a full understanding of the calculation, I know there's enough stuff out there and how those taxes are going to be applied, but you still think that's sustainable in the new world?

Rob Pollock

Well, we do. Remember, Mark, there is all the things with transition, and so we've talked about we think there is attractive returns in the long term, and in the near term, we've got to wait for those rules to be published.

Mark Finkelstein
Macquarie

Just on the Health side, just a little bit more on margins, if my math is correct, after backing off the reserve release, the actual after-tax margin was essentially flattish, but actually slightly down sequentially? I know you're targeting kind of a 4% after-tax by the end of the year. How should we think about that target in light of maybe a little bit of slippage in the quarter relative to an expectation that margins will continue to improve with re-pricing?

Rob Pollock

A couple of things we said, prior to anything with health care reform, we think we're on track and continue to be for a 4% after-tax margin in the fourth quarter. There are a variety of different things that can go on in any quarter. We see nothing in our experience that says that we don't believe the 4% is not achievable.

Mike Peninger

Yes, we feel good. I mean, obviously, you can get minor variances quarter-to-quarter, but as Rob said, we feel like the experience is tracking very consistently with our assumption.

Rob Pollock

The other one I'd point to is what Mike talked about a little bit is, we are seeing quite a difference in the products that we're selling. So, again, I think that's a demonstration of our adapting to changes in the marketplace and we always want to just make sure with those new products that we're analyzing them appropriately and we believe we are.

Mark Finkelstein
Macquarie

One final question, just a follow-up on Vinay's question on how do you think about accretion in an M&A scenario? I guess I would ask this question is, when you look at a deal, would you look at it on its own merits in respect of a normal, call it in your case, 80-20 equity-debt structure requiring a normalized equity cost to capital against that and therefore if it's accretive on those merits, the deal work or would you think about in the context on significant debt capacity and significant excess capital sitting on the balance sheet and it could survive on those merits?

Christopher John Pagano
Executive VP & Chief Risk Officer

Well, I think there are two separate issues. The capital structure benefits from having debt capacity, having excess holding company capital to deploy is separate from the deal and how it stands on a normalized debt-to-cap structure. So they are two separate things.

Rob Pollock

Right, but again, going back to what Chris outlined, remember we're going to come to you with a deal that makes sense on the cash flows because our business model is very oriented toward generating free cash flow. And then we'll move over to the GAAP accounting, and with all the changes that have and will continue to go on with acquisition accounting, it's got to pass that first hurdle. I don't care if it produces good GAAP results; if it's not producing good cash flows, we're not going to be interested.

Operator

Ed Spehar, Bank of America/Merrill Lynch.

Ed Spehar
Bank of America/Merrill Lynch

First, I just wanted to get some clarity on Chris's dividend comments or maybe, Rob, you had said, expected dividend all earnings to Corporate for the year. What does that mean from sort of starting from where we are today? What have you taken up already in dividends and how do we think about what that, when you say all earnings, do you mean, we can look at GAAP earnings and roughly guess that's what it's going to be or how do we think about that?

Rob Pollock

Yes, I think you start with GAAP and stat can be slightly different. We're going to take all the earnings that can come out from the A.M. Best formulas. I think GAAP is a pretty good proxy for that Ed. I'll let Chris comment a little bit on capital moves, but just start with pointing out, we did point out that and freed some capital and solutions that we moved up during the second quarter. Chris, why don't you add on that?

Christopher John Pagano
Executive VP & Chief Risk Officer

Yes, just maybe a couple of comments about what's happened so far and then you can think about it going forward. Again, in the context of being comfortable that we can get all the GAAP earnings from the operating segments up in the form of dividends; during the first quarter, we basically took no dividends and that's typical with our capital management strategy, which is to backend load with dividends towards the end of the year.

Second quarter, we were able to take up more than the earnings in the Solution segment, again, roughly another $80 million which is about half of the targeted $150 million or so that we've talked about. We took up less than the first half property earnings in the second quarter. So if you want to think about some additional capacity there from property, but again of course, the big variable to what the earnings are going to look like and that's where CAT season comes into play, and that's why we're going to be prudent with our holding company capital as we go into the peak of the season.

Ed Spehar
Bank of America/Merrill Lynch

Is it possible to just tell us what the number was you took up, if you go across all those subs?

Mike Peninger

We took up, let's see, I think we took up roughly $275 million or so of operating of dividends in the second quarter, though again, in excess of second-quarter earnings obviously, but less than the first-half earnings.

Ed Spehar
Bank of America/Merrill Lynch

And then I wanted to go back to Health and I guess, Rob, I wanted you to help us understand how you thought about this decision relative to how you thought about going back early in the decade, long-term care and variable annuities? When you decided to get out of those two businesses, there was a lot of excitement about both of those product lines and you looked at the business and said, we're not big enough, we don't have enough of a position, it's not going to be something that we're going to be able to be dominant in, so let's get out of it.

And then we get to Health, and it seems like we're heading in a direction of a market that's very different than what you guys have played in previously. You've never wanted to be in states where there's community rating, right? Isn't reform sort of taking us in the direction of that across the board?

Rob Pollock

Yes.

Edward Spehar

So how did you think about this because there was always a thought of this sort of a good decision in VA and long-term care, obviously in hindsight a great decision, but could you just help us understand?

Rob Pollock

Sure, absolutely. I think the first thing is with everything that's happened and been passed in the world of reform, it's hard to sort out, what is the market going to look like? Okay. We believe the individual market, which is pretty good size today is going to expand. I know medical all gets one together, but there are many different verticals operating within the health insurance marketplace and we believe that the health insurance market is going to continue to be a specialty marketplace with skills we can lever.

Now you bring up the issue of things like community rating. Our historical strength has been world-class risk management around underwriting, but we, in looking of things, have said that's kind of a 1.0 version of risk management. In the new world, we're going to move to risk management 2.0. It's going to have different characteristics, but it will still be important. We think the fundamental issue of looking at how the consumer buys health care is still going to be complicated and they are going to look for help in consultation on how to access and navigate the system.

And then, on all of that, hey, that's all interesting, but can you earn attractive returns there? We think we can. So, again, it's based on a set of assumptions, some of those, Mike mentioned, the success we're having with new plans. We think all those fit in as part of our future, but we're going to play things out and evaluate what we think is an exciting future here moving forward, and we think we're going to be right.

Mike Peninger

At the end of day, this is a huge growth opportunity we think for us and plays to our strength that we've used in the past can adapt to the future.

Ed Spehar
Bank of America/Merrill Lynch

If I could just ask one more on the strategy. First, could you remind us, you had given us at some point what roughly I think the size of Balboa was relative to your forced-placed business? Do you have any update on that or just a rough number for us?

Rob Pollock

Again, given that BofA has kind of announced that that they are putting the thing up for sale, we are just not going to comment on any of this stuff.

Ed Spehar
Bank of America/Merrill Lynch

Even just on market share?

Rob Pollock

Well, again, everybody measures things a little bit differently. We've looked at things in terms of loans tracked and we believe on the basis of loans tracked, we represent about two-thirds of the market.

Ed Spehar
Bank of America/Merrill Lynch

Do you think that in terms of market, when we are thinking about market concentration this is viewed as a homeowners' insurance market not as forced-placed market?

Rob Pollock

Again, that to me, we're not commenting, Ed, on the specifics of the deal.

Ed Spehar
Bank of America/Merrill Lynch

That's fine. And I guess the real question around this is, let's just say that something happened there, that there was an attractive an attractive deal; does anything you do M&A wise potentially impact your decision on the Health side? If something came up outside of Health as an attractive opportunity, is there a point where Health would just be viewed as too much of a management distraction with too much uncertainty for an extended period of time where you might revisit that strategy?

Rob Pollock

To me, Ed, we think the specialty platform strategy is the basis of what we are trying to do. I think we will continue to execute that way. Remember, each of the businesses is very focused on what they do and we think that our whole strategy to maximize shareholder value is enhanced by how we come at the market and we think that's exactly what we're trying to do in Health is maximize things for both the shareholder and our existing customer base.

Operator

John Nadel, Sterne, Agee.

John Nadel
Sterne, Agee

A couple of quick ones. Can you give us a bit more detail about the international combined ratio? I mean you guys mentioned that the U.K. continues to show some modest improvement but there were some new client acquisition cost that may be masked that a bit. Do you feel like underlying the new client acquisition costs that you got those 100 basis points to 200 basis points of improvement in the quarter?

Mike Peninger

Yes, I think the new client additions were probably in the half the 50 basis points to 70 basis points, something like that, John. (inaudible) out were sort of in the range. Now that was normal vaguer. We feel good about the experience in the U.K. as I said and that continues to track nicely and we're still feeling good about our ability to deliver the combined over the course of the year that we talked about with you earlier.

John Nadel
Sterne, Agee

And then how do we think about that? So if you had some new client additions that maybe dragged that combined ratio improvement by 50 basis points to 70 basis points, does that quickly go away? Like, how does that happen? Do we have to wait for those new clients to start generating real premium for you? I guess I assume that's the case.

Mike Peninger

Yes, I think that's the way it works. You've got to install the clients and get everything set up to accommodate the business and then the business starts to roll in and starts to offset those.

Rob Pollock

As we talked about in solutions, John, it will depend on what type of business. So if it's extended warranties with long manufacturer's warranty periods, it will take longer. If it's monthly paid credit, it will come sooner. Again, I think that, to me, we think we are finding opportunities in this tough environment and we're going to take advantage of them.

John Nadel
Sterne, Agee

And then switching over to Specialty Property, could you just go through those numbers again? The loans that are coming on, the loans that are going off and give us a sense for how quickly, especially with the subprime loans coming on, I believe you mentioned really the large majority of that coming on in the fourth quarter, starting earned premium in the first quarter of 2011, is that just as they get new placements of policies or are you actually going to be taking on a book that's already got placements intact?

Rob Pollock

Yep. So, again, we point out that those portfolios will begin being tracked in the fourth quarter, given how our model operates. We send out notifications, et cetera, and it's not a flat cancellation, John, which I think is what you are alluding to but rather on additional placements moving forward. That's how we'll pick the premium. So it will come on gradually over the course of 2011.

John Nadel
Sterne, Agee

That's interesting. I mean if it's already placed and it's not a flat cancellation, I mean do you actually really expect any meaningful placements to occur? Hasn't that ship already sailed?

Rob Pollock

We think we'll get placements here, John. So we're talking about a 550,000 loan portfolio from a new client. We're talking about another 180,000 that were assumed by one of sub-servicers, and then Mike talked about the 80,000 that will come on actually from the prior client we won in the fourth quarter of last year, and they're producing a little bit sooner.

John Nadel
Sterne, Agee

And then lastly, I'm going to come back to you and directly on Balboa and you may not feel that you can answer this question, but I'm going to come to you this way. About two years ago, when Bank of America acquired Countrywide, it was widely speculated then that they wouldn't own Balboa for very long. I think you guys actually at the time were reasonably open about that there was pieces of Balboa, the credit replaced for instance, of course, that made a lot of sense as you looked at it, and there were pieces of Balboa that they engage in businesses that you are either not in or don't really want to be in, like mortgage insurance. Does that remain the same in terms of your overall thought about that property?

Rob Pollock

Given BofA's announcement of their intention to sell, I don't think any of this is appropriate for us to talk.

John Nadel
Sterne, Agee

So one more quick one on the health claim going your way or sort of being reversed. Can you just give us a quick update on other rescission-oriented claims out there and where things stand? I mean, this seem to be a very positive development relative to what we might be thinking about others?

Mike Peninger

Yes, we continue to work down through our inventory of litigation. I think we talked about it our claims there were 16 at year end. That active inventory is now down to only three rescission claims that are in progress now. So, we feel like we continue to work through that and we've talked a lot about the enhancements we've made or improvements and continual improvements we made in our process and how the effort we take to treat people fairly, and so we're feeling real good about the direction that we're going, John.

Rob Pollock

I think this is just another demonstration of a very disciplined decision making process we've had underway in this area for a number of years.

John Nadel
Sterne, Agee

How do you go from 16 to 3? Like what was the resolution there? Did it cost you anything and you were reserved, we don't see it or is it something else?

Mike Peninger

Yes, a variety of things can happen. The claim can go away for a variety of reasons. There can be settlements; there's a number of possible resolutions to those. Whatever the resolutions are from a dollar perspective are incorporated in our results.

Operator

Jeff Schuman, KBW.

Jeff Schuman
KBW

Eventually I'm going to circle back and beat the dead horse again, so you can look forward to that, but I have a couple of other questions first. The loss ratio ex-cats in Specialty Property was I believe a bit higher than we're used to, and maybe Mike spoke to that, but I don't remember that, so any loss trends or pricing issues we should think about there?

Rob Pollock

No, I think that there is a bit vagaries in the non-cat loss ratios over time. I think sometimes our second quarter tends to be up a little from just normal weather patterns, but nothing really unusual there.

Jeff Schuman
KBW

And then when Chris was talking about the balance sheet, Chris, you talked about the existing capital and the debt capacity in it. At some point I thought you mentioned in passing [ph] that there were opportunities to 'further optimize the balance sheet' and I wasn't quite sure what you meant by that?

Christopher John Pagano
Executive VP & Chief Risk Officer

Well, again, to weaken lower our weighted average cost of capital by adding debt to the balance sheet and we think we've got some capacity to do that. Again, I mentioned it, if you're thinking about purely an opportunistic financing, we could probably take on additional $300 million to $500 million worth of debt.

But given the strong operating earnings and the dividend capacity at the operating segments, there is really no need to do that. However, what we do have the opportunity to do or have the flexibility to do is in the course of any kind of M&A activity, we can coincident with that activity, although evaluating the deal independent of it, we could further optimize the capital structure and lower the weighted average cost of capital at the enterprise level.

Jeff Schuman
KBW

So back to Health, I think we're all struggling a little bit to envision this business that you see. If there is great big growing market there and it's a 20% ROE business, that's great. We appreciate that there are rules yet to be established. But I think it would be helpful if somehow we could better envision what this P&L would look like, because at a high level it seems a little too good to be true. I mean, we don't have a lot of examples of retail life insurance businesses where you could manage to an 80% loss ratio and a 20% ROE. I mean, we're certainly seeing health businesses like yours historically or like Aflac's where you can get a 20% plus ROE, but I am assuming on a back of an 80% minimum loss ratio. So it still seems to be kind of a missing ingredient from here, I guess.

Rob Pollock

First of all, Jeff, what you're raising, we're in the transition period, so it's difficult for us, but we're going to layout our strategy at a point in the future when the transition rules are clarified. That may not be till sometime early next year, I'd say. But we're testing a lot of new product concepts now. We're seeing acceptance and are excited about many of the things that we're selling in the marketplace.

Remember, we spend a lot of time in the area of understanding consumer needs in this market and have pivoted our products to things that respond to that affordability issue, and that is really paying off. Now the focus on the loss ratio is a good one and something we need to pay attention to, but I just also want you to think about and point out the game of driving to the low combined ratio is the old model, okay, because the new model says you need to play in an environment where there's a constraint on a piece of the combined ratio, which is the minimum medical loss ratio yet to be defined. So what you really talk about is how do you operate with the remaining piece and be in a position to generate profits. That's what we're focused on and we think there is an opportunity to achieve attractive returns there.

Operator

Steven Schwartz, Raymond James.

Steven Schwartz
Raymond James

First I want to ask, when you did your studies and try to figure out what you were going to do and how this is going to look like, do you have any sense of where the MLR discussion is going, maybe their stuff underneath the NAIC is talking about that doesn't make national underwriter, business insurance and things like that because that's part of what the issue is, it's what's going to be include in that MLR and what's not?

Rob Pollock

That's correct. We like much of the industry, are participating in the discussions, but there are many issues that are still to be resolved, and Mike, you want to just make a few -?

Mike Peninger

We're certainly engaged in the conversation, Steve, and I don't know that there is any magic news under the covers or anything. We certainly have had a lot of discussion that is part of the dialogue about what's in the calculation, how the calculation is done, the credibility pieces, the levels of aggregation by different blocks, so there are lots of different things going on there, and of course, in our planning, we've made assumptions around certain of those, so hey, you have to do that when they're not finalized.

If you just look at things originally, they plan to make recommendations in June. It has move further out. There is issues around how our issues like quality of care is going to be dealt with, which is a center point I think of what the reform is focused on, but when you get into the detail of what is the reason for that kind of thing, there are still very healthy debate underway.

Steven Schwartz
Raymond James

Two more if I can. I'm not familiar with it, would you describe the Health Access product and how that differs from major med? I guess, Rob, you mentioned that historical underwriting to get a profit was risk management 1.0; you've said you've moved on to risk management 2.0, but maybe you can give an example of what risk management 2.0 looks like?

Rob Pollock

Sure. First, the comprehensive major medical product cost continue to go up and we've been honed in on affordability of product for the last several. In other words, you've got a large buying population who wants to get into the health care system but are constrained by issues around affordability. And we've mentioned this before, more first dollar [ph] benefits, but more limited catastrophic benefits for instance.

Those kinds of things are gaining quite a bit of acceptance. In terms of risk management 1.0 versus 2.0, I think you start thinking about how and who will access the business, try and get access to the system where. Again, early stages, but we think there are things that we can look to that will differentiate how you deal with people coming into the system.

Steven Schwartz
Raymond James

And then just on the Canadian preneed sale. There was a mention of a tax increase that pushed sales up. Could somebody dive into that a little bit more and explain just exactly what's going on there?

Mike Peninger

I don't know that precise details of the tax laws, Steven, but the basic deal is that, there was a consumer tax that was going to levied on these products that will just make them a bit more expensive that went into effect on July 1. So we think that there is a combination. Well, there was a certain amount of sales that were probably accelerated into the second quarter because there was some money that could be saved by buying in the second quarter versus later, and we think that that sort of ‘beat the deadline’ kind of phenomenon added about $50 million of face sales into our normal run rate of Canada.

Rob Pollock

Yes, I mean, to me, again it’s another great example of adapting to what we saw a change that we knew about, we’re able to bring to market with a strategy to sell policies or we enforce again why we like the preneed business.

Operator

Jack Sherck, SunTrust.

Jack Sherck
SunTrust

A quick question for you on the Specialty Property business. Just looking at the gross written premiums, the growth we are getting is coming from that other category. What exactly is in there?

Rob Pollock

So the other category would include things like our renters insurance, exactly. So those have been the two drivers of growth for us Jack.

Jack Sherck
SunTrust

Just on the Specialty Property business overall, when you look at the days outstanding from delinquency to foreclosure, they’ve picked up nicely year-over-year. I think you guys are seeing that in your business also, if you just want to talk a little bit about how long these policies have been in the pipeline vis-à-vis last year?

Rob Pollock

What we’ve seen it extend out a bit, Jack, and we’ve reported that out to you. It obviously varies by the different servicers in the business. It has also sometimes been impacted by the new programs that have been announced on behalf of the government to try and keep people in homes, so many dynamics going on in the market. I think the way to think about it right now is we’ve seen an extension of how long a policy has stayed in force. I want to thank everyone for joining us today. We look forward to updating you on our progress next quarter.

Operator
We’d like to thank everyone for their participation. This does conclude Assurant’s Second Quarter 2010 Call. Please note a replay will be available at 11.00 AM.