S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

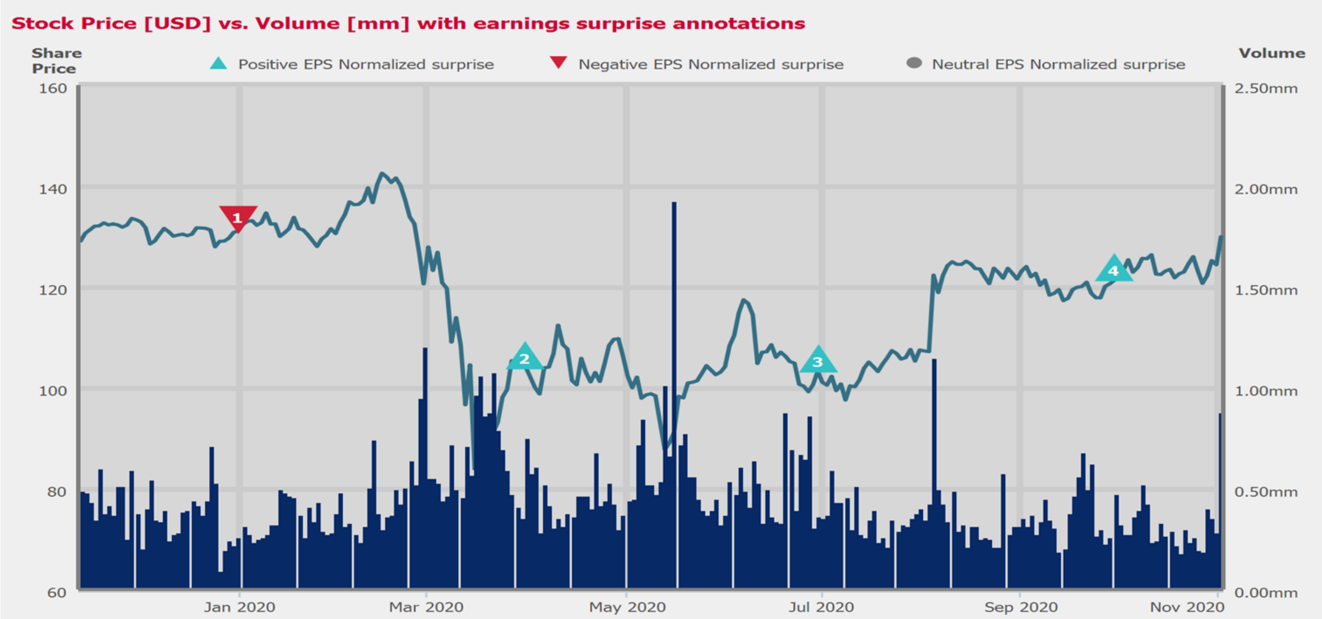
FQ3 2020 Earnings Call Transcripts

Tuesday, November 03, 2020 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.99	1.41	▲42.42	2.29	8.70	NA
Revenue (mm)	2114.66	2502.50	▲18.34	2171.05	8711.31	NA

Currency: USD
Consensus as of Oct-26-2020 7:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	2.35	2.25	▼(4.26 %)
FQ1 2020	2.43	2.64	▲8.64 %
FQ2 2020	2.12	2.75	▲29.72 %
FQ3 2020	0.99	1.41	▲42.42 %

Table of Contents

Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Francesca Luthi
Executive VP and Chief Communication, Administrative & Marketing Officer

Richard Steven Dziadzio
Executive VP & CFO

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Brian Robert Meredith
UBS Investment Bank, Research Division

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Mark Douglas Hughes
Truist Securities, Inc., Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

Presentation

Operator

Welcome to Assurant's Third Quarter 2020 Earnings Conference Call and Webcast. [Operator Instructions] It is now my pleasure to turn the floor over to Francesca Luthi, Chief Administrative Officer of Assurant. You may begin.

Francesca Luthi
Executive VP and Chief Communication, Administrative & Marketing Officer

Thank you, operator, and good morning, everyone. We look forward to discussing our third quarter 2020 results with you today. Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; and Richard Dziadzio, our Chief Financial Officer.

Yesterday, after the market closed, we issued a news release announcing our results for the third quarter 2020. The release and corresponding financial supplement are available on assurant.com.

We'll start today's call with brief remarks from Alan and Richard before moving into a Q&A session.

Some of the statements made today are forward-looking. Forward-looking statements are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by these statements. Additional information regarding these factors can be found in yesterday's earnings release as well as in our SEC reports.

During today's call, we will refer to non-GAAP financial measures, which we believe are important in evaluating the company's performance. For more details on these measures, the most comparable GAAP measures and a reconciliation of the two, please refer to yesterday's news release and financial supplement.

Now I'll turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Francesca. Good morning, everyone. We are pleased with our third quarter operating results, which demonstrate the continued resiliency and strength of our business portfolio. Our track record of delivering strong, profitable growth, not just this quarter, but over the past few years, reinforces our strategic direction and our confidence in the future growth prospects of Assurant.

Last week, we made 2 announcements that underscore our focus on our market-leading lifestyle and housing businesses while capitalizing on the convergence of the connected mobile device, car and home. Our Connected Living, Global Automotive and multifamily housing businesses have a history of profitable growth, and we believe compelling future growth potential. In addition, our specialty P&C offerings, including lender-placed insurance, are extremely well positioned. The countercyclical nature and strong returns of the business continue to make it a critical part of our portfolio.

Together, lifestyle and housing should drive ongoing above-market growth and superior cash flow generation with the ability to outperform in any economic cycle and, ultimately, to create greater shareholder value over time.

Our acquisition of HYLA Mobile, a leading provider of smartphone software and trade-in and upgrade services, will strengthen our market position with increased scale, complementary client bases and favorable tailwinds in the global mobile market. We value HYLA at the multiple of low teens forward EBITDA. The combination of its patented software technology and trade-in capabilities with Assurant's end-to-end mobile device life cycle management expertise will deliver 3 primary benefits: first, it will enhance the customer experience, making it easier for consumers to get trade-in value for their used mobile devices without an in-person inspection; second, it will improve program economics and performance for our partners, including higher trade-in attachment rates; and finally, it will further strengthen Assurant's ability to take advantage of the 5G smartphone upgrade cycle.

HYLA also has strong relationships with marquee partners, complementary to Assurant's client base across our critical distribution channels and geographies and including leading U.S. and Japanese mobile carriers as well as major global OEMs.

As we announced, we intend to fund our acquisition through a combination of cash on hand at the holding company and new debt issued prior to closing so that we can continue to optimize our capital structure while maintaining investment-grade ratings.

To better align resources to the best market opportunities within lifestyle and housing, we've also announced a review of strategic alternatives for Global Preneed, including a potential sale. This decision was not an easy one, given the strength of the business and the considerable value its employees brought to Assurant. Global Preneed is a strong business with over 2 million policyholders throughout the U.S. and Canada. It has delivered consistent growth while generating robust cash flow and above-market returns.

It has nearly $6 billion in investable assets and is relatively low-risk compared to other life insurance-type products. However, we believe the business has been historically undervalued as part of Assurant. So a transaction should unlock significant value by allowing us to deepen our focus on consumers' connected lifestyle and our differentiated P&C businesses. We expect that any proceeds from a potential transaction will be deployed to fund business growth with excess funds returned to shareholders over time. In the months ahead, we will provide updates on our progress as appropriate. And as always, during this time, we will continue to honor our commitments to clients and policyholders while delivering exceptional service.

Now I'll provide a few key highlights from the third quarter that affirm our continued progress within our lifestyle and housing businesses.

Within Connected Living, we've grown earnings 22% year-to-date. As we focus on continuing to drive long-term growth, we are moving forward with the build-out of our full-service customer capabilities to deliver superior customer service to our 54 million mobile subscribers.

This quarter, we also acquired Fixt, providing mobile customers increased choice through a come-to-you repair capability. This acquisition complements last year's purchase of Cell Phone Repair, or CPR, that delivers the same-day local repair option. Like HYLA, these investments will support the acceleration of our strategy by expanding our capabilities and offerings as we anticipate the ever-evolving needs of connected consumers.

We also recently launched Pocket Geek Home , which offers personalized tech support and bundled protection of at-home technology, including laptops, gaming systems and other electronics from accidental damage and mechanical breakdown. While it is still early, we believe this offering is an important step in the development of future-connected lifestyle protection products.

In Global Automotive, we remain focused on opportunities to leverage our leadership position to scale in key global markets.

In the U.K., we recently launched a new product for electric and hybrid vehicles called EV One. This includes a new partnership with a London electric vehicle company that will cover their iconic London black cabs and electric van models. This supports the continued growth of our auto business globally, while also gaining further insights into the evolving electric vehicle market, and it supports the U.K.'s move toward EV as a standard by 2035.

Within Global Financial Services, we are pleased to announce the launch of a new partnership in Canada with the Bank of Montreal, leveraging our omnichannel customer capabilities as we continue to reposition the business for profitable growth long term.

Moving to Global Housing. We extended our agreement with yet another client in the lender-placed business. We've now renewed 20 clients, representing more than 85% of our tracked loans since the beginning of 2019. Lender-placed is a critical part of the mortgage landscape in the U.S. and continues to be an important component of our long-term strategy.

In multifamily housing, we grew revenue and policies by 8% and 9%, respectively, year-over-year. Our Cover 360 property management solution continues to gain momentum and drive higher penetration of renters insurance with our property management company partners. The product, formerly known as Point of Lease, allows the customer to combine their payment of rent and insurance. The solution now includes insurance tracking, verification and policy placement to eliminate coverage gaps. We're now tracking more than 335,000 rental units, which grew 40% since the second quarter.

We also believe that our increased investments around the connected home and connected apartment will drive new opportunities to increase P&C penetration rates.

Turning to our key financial metrics. We're pleased with our progress against our 2020 objectives. Through the first 9 months, net operating earnings per share, excluding catastrophes, increased 25% year-over-year to $8.69.

Net operating income, excluding catastrophes, was up 21% to $527 million. COVID-19 did not have a material impact on year-to-date results.

For the full year, we now expect our operating earnings per share, excluding catastrophes, to grow between 17% to 21% compared to 2019, well ahead of our initial expectations. The revised outlook largely reflects Global Housing's favorable non-catastrophe loss experience through the first 9 months of 2020 as well as continued growth in Connected Living and our disciplined expense management.

Our capital position has remained strong throughout the pandemic. In the quarter, we resumed buybacks, and we've now returned over 50% of our $1.35 billion objective from 2019 through the end of September. We expect to return the balance by the end of 2021 as we originally planned, primarily supported by the strong cash flow generated by our lifestyle and housing businesses.

All of this is a reflection of the continued dedication of our 14,000-plus employees globally. They continue to do an outstanding job of managing through the COVID pandemic, while providing exceptional support to our customers, including those impacted by natural disasters this year.

I'll now turn the call over to Richard to review third quarter results, recent trends and our 2020 outlook in more detail. Richard?

Richard Steven Dziadzio
Executive VP & CFO

Thank you, Alan, and good morning, everyone. I'd like to start by saying that we're really pleased with our third quarter. We reported operating earnings per share, excluding catastrophe losses, of $2.85, up 25% from the prior year period.

Net operating income for the quarter, also excluding catastrophe losses, was $172 million, an increase of 22% from last year largely due to more favorable noncat loss experienced in Global Housing, continued momentum in Global Lifestyle and improved results in Global Preneed. Sales trends across the board have been improving from lows recorded in March and April at the height of the pandemic, and we are seeing more normalized levels of COVID-related claims activity in Global Lifestyle and Global Housing.

Now let's review segment results in greater detail, starting with Global Lifestyle. This segment reported earnings of $107 million in the third quarter, up 4% compared to the prior year period. This increase was primarily driven by Connected Living, where we benefited from new mobile subscribers. Improved profitability within extended service contracts also contributed to growth in the quarter.

Within Global Automotive, results reflected continued pressure from lower investment income and investments to support growth.

Declines in Global Financial Services reflected lower card balances and volumes as well as less favorable loss experience, some of which was attributable to COVID. We also incurred additional expenses to launch new client programs.

Looking at total revenue, net earned premiums and fees grew by $56 million or 3%. The increase was driven primarily by 14% growth in Global Automotive, including prior period sales of vehicle service contracts. We're continuing to monitor sales trends, which has stabilized but still trail 2019 levels on a year-to-date basis due to impacts from COVID.

Global Lifestyle revenue growth was partially offset by lower revenue from mobile trade-in, primarily due to the contract change we disclosed last quarter. This change lowered revenues by $39 million as we changed reporting from a gross sales basis per device to a flat fee per device. As a reminder, this change will remove some of the revenue and expense variability we have historically seen in our financial results and mitigate supply and demand pricing risk.

Overall, for the full year 2020, we continue to expect Global Lifestyle to grow net operating income when compared to full year 2019.

Looking ahead, we anticipate an uptick in trade-in activity in the fourth quarter, which will continue into the beginning of next year. Volumes will depend on the following: the timing and availability of devices for new phone introductions, the level of carrier promotions and the growth from new business.

Looking ahead to 2021, we expect earnings expansion within lifestyle to moderate from the strong 2020 levels, which benefited from 3 items: first, $16 million of onetime benefits year-to-date; second, lower claims during the first few months of the COVID pandemic; and finally, lower expenditures on categories such as travel, given the uncertainty around the pandemic. We also expect ongoing headwinds from low interest rates on investment income.

Moving now to Global Housing. Net operating income for the third quarter totaled $13 million compared to $42 million in the third quarter of 2019. The decrease was primarily due to $51 million of higher reportable catastrophes. As we preannounced, we incurred a total of $87 million of after-tax cat losses related to several hurricanes and wildfires in the U.S. Nearly half of the losses in the quarter were from Hurricane Laura, with the remainder primarily related to Hurricane Sally and Isaias, as well as wildfires in California and Oregon.

Excluding catastrophe losses, earnings increased $23 million year-over-year or 30% to $100 million. Approximately 2/3 of the increase was due to favorable non-cat loss experience across specialty products and lender-placed. This included $8 million of favorable experience that we don't expect going forward, including reserve releases related to runoff businesses. Improvements in underwriting and product changes also led to more favorable experience.

We also benefited from continued growth in multifamily housing from affinity partners. Within lender-placed, the results also reflected higher premium rates. Growth was partially offset by the reduction in policies in force, driven by declining REO volumes from the current foreclosure moratoriums and the previously disclosed financially insolvent client.

Looking at placement rates. We recorded a 2 basis point sequential increase in the quarter to 1.58%. This was a attributable to a shift in business mix. It's not an indication of a broader macro housing shift.

Turning to Global Housing revenues. Net earned premiums and fees decreased 4%. Similar to last quarter, this was driven mainly by 3 items: The exit of small commercial, the insolvent lender-placed client, and lower REO volumes. This decrease was partially offset by growth in our multifamily housing and specialty property businesses. Multifamily housing revenues increased, driven mainly by growth from our affinity partners.

For the full year, we expect Global Housing's net operating income, excluding cats, to increase year-over-year, driven by favorable non-GAAP loss experience as well as improved results in each line of business.

Looking ahead, we expect to see more normalized non-cat loss experience, lower REO volumes due to foreclosure moratoriums that have now been extended through the remainder of 2020 and lower investment income due to lower yields.

Specifically, in the fourth quarter, we also expect Hurricane Delta to be a reportable event, likely in the range of $12 million to $20 million pretax, subject to further claims analysis. And while still too early in the claims process to speculate, Hurricane Zeta will likely be a reportable event as well. We will provide an update prior to fourth quarter earnings, if necessary.

Now let's move to Global Preneed. Overall, the business continues to perform well. The segment reported net operating income of $13 million, an increase of $6 million year-over-year. The absence of the negative onetime accounting adjustment in the third quarter of last year was offset by lower investment income this quarter.

While market mortality trends have fluctuated during the pandemic, the impact on mortality on earnings continued to be immaterial in the quarter.

Revenue for preneed was up slightly, primarily due to continued growth in sales of our Final Need product, and we are pleased to see a rebound in face sales since the second quarter, reflecting the reopening of funeral homes. Overall, for Global Preneed, we expect 2020 earnings will approximate 2019 reported results.

Moving to corporate. The net operating loss was $23 million compared to $21 million in the third quarter of 2019. This was primarily due to lower investment income. For the full year, we expect 2020 corporate net operating loss to approximate $90 million, mainly as the result of lower investment income and investments for growth.

Turning to holding company liquidity. We ended September with $460 million or $235 million above our current minimum target level. In the third quarter, dividends from our operating segments totaled $245 million.

In addition to our quarterly corporate and interest expenses, we also had outflows from 3 items: first, we bought back $70 million of stock after resuming share repurchases in the quarter; second, we paid $42 million in common and preferred stock dividends; and finally, we had approximately $10 million of net cash outflows related to the acquisitions of Alegre and Fixt and the sale of our CLO platform. In the fourth quarter through October 30, we repurchased an additional 330,000 shares for $41 million.

Regarding the new debt issuance to support the financing of HYLA, we continue to target an overall debt-to-capital ratio of less than 30% and expect to remain within that target while also maintaining investment-grade ratings.

For Global Preneed, we reported a $136 million goodwill impairment charge. This was related to the decision to explore strategic alternatives for this segment, combined with the impact of the low interest rate environment. This is a noncash charge and runs through net income.

Moving forward. For the year overall, we still expect dividends to approximate segment earnings, subject to: the growth of the businesses, rating agency and regulatory capital requirements and the performance of the investment portfolio.

In summary, we've delivered solid results and maintained a strong financial position throughout the pandemic. As we approach year-end, we remain focused on meeting our 2020 financial objectives and on building a stronger Assurant for the future.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is coming from the line of Mark Hughes from Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Hope you all are well. On the vehicle business, the Global Automotive had a nice acceleration in earned premiums and fees, up into the 13%, 14%. I think you had said that the new sales were still kind of lagging behind last year and year-to-date. Something is going on with the earned with the pickup there?

Alan B. Colberg
President, CEO & Director

Yes. Maybe, Mark, let me start and then, Richard, you can give a little more color.

If you look at the impacts of COVID in auto, we saw a real slowdown in the sales back in March and April. Since then, we've been recovering. And our -- if you look at the current run rate, it's basically at or above 2019 levels. We just haven't fully caught up the gap that happened early in the year on kind of new sales for this year. But the momentum is strong, and the business is strong.

Richard, do you want to talk a little bit more about what's happening with NEP?

Richard Steven Dziadzio
Executive VP & CFO

Yes. Exactly. And then, again, that's exactly right. The only other thing I would add is, is obviously, some of the earned premium is what we've written historically, not just this year, in prior years, too. So from time to time, we've had season -- seasonality where sales can be a little bit higher.

So the earnings can be a little bit higher. I always think, relative to auto, as in other lines of business, it's good to look at it on a kind of a year-to-date basis and look over the last 6 months or year for trends.

Alan B. Colberg
President, CEO & Director

Yes. The other thing I might add, Mark, is as we look to the future, we feel very well positioned, going back to the reasons why we purchased the Warranty Group.

And you heard in the prepared remarks, we highlighted another step forward in electric, which I think will position us to be one of the leaders around that as it grows in the market.

So well positioned, performing well, and we look good as we look to the future for auto.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Just talk a little bit about the HYLA acquisition in terms of potential for customer expansion, where they have relationships that you could perhaps build on.

Alan B. Colberg
President, CEO & Director

Yes. What's interesting about HYLA is it really complements our business and what we do. So we have our set of clients. We have end-to-end capabilities. What they have are generally different clients. So they bring a variety of clients that we currently don't have a significant business with. So they also bring a really superior software as a service and analytic capability that we can incorporate and drive into our programs over time.

They've delivered strong double-digit growth over the past 3 years within their base. Now they've started to expand. And together, we'll have now more than 30-plus trade-in programs that are operating in key markets around the world and positions us well for the 5G megatrend. We don't know fully whether that will be a '21 event or a '22 event, but we'll be the partner of choice, I think, for trade-in buyback around the world after we close on HYLA.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then finally, your current thoughts on the lender-placed business, when you look at the nonserious delinquencies. What do you think is going to shape up '21?

Alan B. Colberg
President, CEO & Director

So right now, we're -- as we've talked about in the prepared remarks, we're seeing some -- well let me back up even more. That business is in a good place, right? We've been able, over the last few years, to get the earnings, ex-cat, to be stable, independent of any growth in the business. And through the evolution of our product, the things we've done over the past decade, we're really well positioned as an integral part of the mortgage process. And as you know, we've been investing in our technology to really deliver superior customer experience.

Now what's happening in the short term is we're actually not seeing any growth in that business in terms of placement. REO volumes, for example, are down and are down significantly because of the foreclosure moratoriums that are in place. But we're well positioned if the market does weaken next year. As we mentioned in the prepared remarks, we've now renewed the vast majority of our tracked loans. And so we don't know what will happen in the housing market, but certainly, nothing will happen in the short term. But if the housing market does weaken, you could see strong growth beginning maybe the second half of '21.

Operator

[Operator Instructions] Your next question comes from the line of Brian Meredith with UBS. .

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here for you. First, on Global Lifestyle. First, I guess, did the Sprint deal have any kind of impact on global covered devices much in the quarter?

And then following on, on that, what do you kind of -- or maybe give some more color around what do you think the potential backlog here is with respect to trade-ins? I know you talked about it picking up in the fourth quarter, and maybe a little more context around with respect to the iPhone upgrade and the 5G upgrade cycle.

Alan B. Colberg
President, CEO & Director

Yes, Brian, thank you for the questions. On Sprint and T-Mobile, first of all, again, I want to recognize the importance that we have of that relationship with T-Mobile. We've been their partner, supporting their innovation and disruption for the last decade, and that is really the driver of our then now participating in the growth of Sprint.

We are starting from 0. And there really, the program has just began to get going. It took a couple of months after the closing before T-Mobile really began to convert the stores as they wanted to make sure they didn't disrupt things during that conversion phase. So we're starting to see some impact, but it's going to be a gradual ramp. We're also investing, as you might expect, to help all the legacy Sprint stores be in a good position to sell our products as people come in. So not a lot of impact so far, but will be a significant growth driver over the next 2 to 3 years as that program really ramps.

In terms of the trade-in and buyback cycle, what we've seen in the last 3 or 4 years is that the volume really begins in the latter part of Q4 and then really into Q1. And that's, again, what we expect to see this year. We'll see some volume beginning in Q4, but the bulk of the volume in the last couple of years has been lagged into the first quarter of next year. And it really is driven by, one, that new iPhones are available. And if you noticed their announcement, a couple of the new models were out right away, but a couple of the new models are still not out. And so we'll see that over time.

And I mentioned 5G earlier. This is the first year that the iPhones really have 5G capability, which is a real positive. But when will consumers really get excited about 5G, we don't know for sure. But as we mentioned earlier, we're now well positioned to support our carrier partners with 5G when it happens.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then two quick questions here on Global Housing. The first one, the underwriting initiatives that you guys implemented, maybe a little more color on what those were and what the impact was on the underlying combined ratio because I assume that's going to be sustainable here going forward.

Alan B. Colberg
President, CEO & Director

Yes. Richard, do you want to take that one?

Richard Steven Dziadzio
Executive VP & CFO

Yes, sure. Sure. Yes, I think there -- the changes that we made in the underwriting were across a couple of different products. So first would be, we've talked about it before, small commercial. We had gone into that. We didn't have a positive experience with it and then put it into runoff. So obviously, that will persist in the future because we have no plans to get back into that. So that's one positive.

And then within the sharing economy, I think we mentioned it on a call earlier in the year, we had, had one type of product with one client who weren't getting good experience with and that we underwrote to. So again, I think there, we have -- we've gotten good results out of that and are moving forward with positive results.

The part of your question, which is how -- what will persist or not. We have had, within the non-cat loss ratio, some positives this year that won't reoccur. For example, some reserve releases of a limited amount that we mentioned in our prepared remarks of about $8 million. Those won't continue. We don't think.

We've also had a really good run in terms of lower frequency, severity and things like theft and vandalism. Will that continue? That's sort of a question mark in terms of how that will go in the future.

So there are some things that will continue. Some things that probably won't, the reserve releases. And then some things, we'll wait to see what happens in the future with our experience.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then just one last one on the Global Housing segment. It's been a fairly active year, obviously, for catastrophe losses, given what's going on with global warming and stuff. I mean some people expect this to be more the norm than the exception.

I guess my question then is, does a year like the year -- this year make you kind of question your reinsurance program, changes to the reinsurance program, maybe using more aggregate cover to kind of mitigate some of the volatility in the business?

Alan B. Colberg
President, CEO & Director

Yes. Maybe I can offer a few thoughts, and then Richard, you should offer a few more.

I mean, if you look at the last few years, we've dramatically changed our exposure to cat. We've done things like taking the retention down to $80 million, where it is today, from $240 million 5 years ago. We've exited certain lines that we were participating in, in the Caribbean. We've reduced exposure by exiting the small commercial business. And so we do feel very good about the portfolio, and it's performing well. If you look at through the third quarter, even with an active cat year, our ROE in housing is something like 14% or 15%. And so it's still performing and delivering well.

With that said, every year, we revisit how we think about the risk-reward trade-offs on the cat program. And Richard, maybe you want to comment a little more on how we're thinking about that in 2021?

Richard Steven Dziadzio
Executive VP & CFO

Yes. Thank you. And I think, Alan, you hit on a lot of the very key points, which is part of cat is managing the exposure to cat. So we're very thoughtful in terms of what risk we're taking on. Obviously, lender-placed, we have the exposure we have, given that flows through from the clients too, to ourselves.

But every year we look at it, as Alan said. We look at what can we do to manage our exposure, whether it be bringing down our retention. Brian, you'd mentioned buying in aggregate. That's obviously something that we look at every year. At the end of the day, there's economics around it, and there's pricing in the market. So we look at that and say, "Is it thoughtful for us to buy more reinsurance? Or is this a risk we're happy to hold given the pricing out there in the market?"

As Alan said, we can have a quarter like last quarter, where we do get hit by natural catastrophes. But over a period of time, and I would say just 1 year, our combined operating ratio ends up being well below 100, and the ROEs on this business are very positive. So we're managing around that, being thoughtful around that, and where there are good economic opportunities to lower our exposure, we will definitely take that.

Alan B. Colberg
President, CEO & Director

And Brian, if I step back from housing and look at our overall portfolio at this point, we've delivered strong profitable growth. We expect to continue to deliver strong growth, no matter what the market environment is. And it's really that combination of lifestyle and housing capabilities and products that does that.

And as we look to the future, and we mentioned briefly in the prepared remarks, Pocket Geek Home, we see a real convergence coming between lifestyle and housing and great opportunities around the connected home, the connected apartment and a whole new set of growth drivers for us as we look to the future. So we feel good about the portfolio. We'll always fine-tune our cat exposure. But we feel like we're in a pretty good place with that at the moment as well.

Operator

Your next question comes from the line of Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

One more on the housing side. Not just the last 2 quarters, but probably looks like the last couple of years, you've had a nice downdraft in the expense ratio. I guess maybe you can talk about what you're doing to make that happen. And should we expect that to continue? Or are we kind of at a level you like it to be?

Alan B. Colberg
President, CEO & Director

Yes. Maybe again, I'll start. And then Richard, you should add into it.

I mean the business is in a good position today as we've worked to drive efficiencies. We've, for example, been investing in improving various processes, using artificial intelligence and automation, and that has helped us. We are in the middle of converting clients to our single-source processing platform, which really delivers over the next few years a much simpler and better customer experience.

But I don't think we'll have continued improvement in that ratio. What I mean by that is we've worked with our regulators to kind of agree a normal range combined ratio. And Richard, you may want to talk about that and how we think about that with our regulators. But we feel good about where it is today.

Richard Steven Dziadzio
Executive VP & CFO

Yes, we do. And I think the team has done a great job in managing expenses. If we think about the last couple of years, we've seen the revenues come down, and now they're coming down very little. I mean we've talked about the financial insolvent client that put a little bit of headwind. But over the 9 months, we're down not much at all, let's call it 5%. So in terms of the expense management, I think we are at the bottom with the discipline we have and what we need to deliver to our customers, which is obviously at the forefront of our thoughts.

And with regard to the regulators, obviously, the regulators take into account the experience we have. So if there's years where the overall loss ratio is really high, we could go and ask for some pricing improvements. If it's too low, obviously, that gets taken into account.

So overall, I think even if the loss -- the expense ratio, though a lot lower, we would see that come through rate over time. I think where we're looking at the expense ratio was from a competitive point of view to be able to operate and produce the most efficiency for our customers so they get the best experience that we can offer them.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. That's helpful. You both mentioned, and Richard did, and I think, Alan did, I know it was in your press release. Improved profitability in the extended service contracts, and maybe what's driving that and how you expect that to continue. Or where should we expect it to be as we get into next year?

Alan B. Colberg
President, CEO & Director

Richard, do you want to take it?

Richard Steven Dziadzio
Executive VP & CFO

Yes. I think, first, it has had some good operations, good results in the beginning of the year here, in the last quarter in particular. That's really coming from lower client losses experienced last year. And now what we're seeing is a little bit more normalized experience, so better experience this year. So we think now where we are, we're kind of in a more normalized place than we were in the past, if I can put it that way.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. That's helpful. And then a bit of a goofy question, I apologize. But you talked about the U.K. and the EV cars. How does the -- just the business or the contracts of car warranty extended service contracts and auto change as cars become more technology-driven, maybe in -- I don't know what year we have a higher percentage of cars or essentially computers on wheels as compared to the [indiscernible] of cars. How does that change over time, the extended [warranty] contracts of this?

Alan B. Colberg
President, CEO & Director

Yes. No, you raised a great point. So as we think about the future, a couple of things happen with the car. One is the car just becomes a big connected device. So if you think about the early days of the car phone 25, 30 years ago, now in the future, everything in the car is connected all the time, particularly once 5G gets rolled out. So there'll be a whole set of value that we can deliver through our service contract around keeping you connected. It's basically what we do in mobile today. And we see that coming to auto. So that's one thing.

And then if you think about electric vehicles, for example, you'll have fewer things that can go wrong, but you'll have much higher severity when something does go wrong. And so we're learning. One of the reasons we've been pushing hard with electric, we've done a deal in China, we've now done the deal in the U.K., is to really develop the data and the learning so that we can be the most compelling offer to support what we think for a consumer will be even a greater interest in the service contract, both because of the nature of the risk, but because of the connectivity of the car. And that really is an area where we feel our business being in both mobile and auto gives us a unique set of advantages in the market.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Makes sense. It sounds like interesting times in that regard. So I look forward to that.

Operator

[Operator Instructions] Your next question comes from the line of Bose George with KBW.

Bose Thomas George
Keefe, Bruyette, & Woods, Inc., Research Division

Just -- I actually wanted to go back to the Global Housing. Any update on the Bank of America, the RFP on that piece?

Richard Steven Dziadzio
Executive VP & CFO

I -- the way we think about it is we have the best capabilities, the most value that we can offer our clients. Obviously, that process is ongoing and confidential. And as I've talked about before, the incumbent always has the significant advantage.

But with that said, we are doing all we can to put our best foot forward in every process as out there in the market, and we really do feel we have a compelling offer. So we'll just have to see what happens over time.

Bose Thomas George
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, great. And then actually switching over to your commentary on year-over-year growth in NOI. I mean, there are quite a few moving pieces there, but do you think you can do double-digit NOI growth in 2021?

Alan B. Colberg
President, CEO & Director

Yes. Let me -- a couple of comments on that. First of all, we'll provide an outlook in Q4 earnings call, so that'd be early February, about what we really expect, and you shall -- should expect for 2021.

A couple of comments though. 2020 has been a very strong earnings growth year. I'm really proud. I think we're all really proud of our people have delivered for our customers and our clients and for our shareholders. But the really strong 2020, it does create some year-on-year challenges, if we look at '21. We had about $16 million of onetime benefits in lifestyle earlier this year. We've never assumed a onetime benefit will recur. We had about $8 million of favorable experience. We just mentioned in Q3 in housing. We don't really expect that to recur. We did have some other benefits from, for example, our expense management actions, where we deferred some hiring. We reduced travel. That will come back.

So definitely, 2021, we do expect to grow, but we expect it to moderate from 2020. And overall, if you think back to our Investor Day, we said at Investor Day that, on average, in 2020 and 2021, we would grow operating earnings, so NOI ex-cap by 12% on average. Back in Investor Day, we thought it would be a little bit lower in 2020 relative to the 12% and a little bit higher in 2021. Now we had a stronger 2020, and we now expect to moderate a little bit in 2021. But the combination of the EPS growth that we expect, the 12% on average 2021, we still believe that's appropriate.

Operator

Your next question comes from the line of Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to ask a bigger picture question about customer behavior. We've been through a big experiment in the United States about what happens when economies get shut down and how -- when people work from home and how they change what they do with electronics or other things and I'm trying to discern what might be a permanent change in there versus what might be just temporary and goes away next year. And I was -- just wanted to hear your thoughts on whether there -- whether you think there is anything that has been permanently accelerated or changed in how you engage with your customers?

Alan B. Colberg
President, CEO & Director

Gary, thank you for the question. And as you imagine, we've spent a fair amount of our time thinking about what are the long-term implications of COVID.

I think for us, the first thing I'd highlight is just how resilient our business is. It shows the value of kind of an embedded subscriber base, a range of services that really allow consumers to stay connected. And one of the things that I think COVID has highlighted with the move to be at home more, then move to some sort of hybrid working model, and more likely post-COVID, being connected is everything. And what we do around connecting your devices, making sure everything your home is working, that's really important. So I think that actually helps us even more as we look to the future.

A couple of other things we see with COVID, digital. Digital was obviously already a trend that we've been investing against for years. But I think the acceleration of digital is real and permanent. And we, for example, in the last 6 months or so, we really upped our investment in digital everywhere. So today, we feel, like an example, in rental, multifamily, our digital capabilities are at or better than anybody's in the market. So we see digital kind of as an ongoing trend.

And then the other thing we're thinking about, are there changes, for example, in global supply chain? So we may think about that over time.

But at the end of the day, I would highlight just how strong our business has performed through this uncertainty and just shows the value of what we're doing for our customers and how much they appreciate being able to stay connected and having everything in their home work the way they wanted it to.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I also had a question on the HYLA comments about the higher attachment of trade-ins. And I just wanted to understand better what it is that HYLA is doing to make the customer more interested in trading in rather than keeping their phone?

Alan B. Colberg
President, CEO & Director

Yes, there are a couple of things that are interesting, that will be additive for us. One is their analytics are very impressive. So they can give effectively, through analytics, you can offer a better price to the consumer. So that's one important item.

Second, with their analytics and their capabilities, often now we can offer a quote without having to see the phone and have certainty that will be the quote for the consumer. And that also increases the attach rates.

And then the other thing they've done well, and we also do, is work with our clients to really help them understand how trade-in can drive persistency and retention for their customers.

So it's a combination of all those things. But they've got a strong track record of being able to drive up the attachment of trade-in, which is still an opportunity to continue to get better at. But they've shown the ability to work on and improve it year-on-year for several years in a row now.

Operator

Our last question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

One last -- just follow -- one last quick follow-up. On the preneed sale, any timing that you can kind of give us on kind of when you think the process may be done?

And then also on that, any kind of thoughts on what the potential valuation would be?

Alan B. Colberg
President, CEO & Director

Yes. In terms of the process and valuation, we're just getting started. So I want to clarify that we're very early, but we are looking at a range of alternatives. And a good guide is what we do with Employee Benefits, which took -- it took us back then something like 4 or 5 months to get to an offer and then another similar period of time to close. Who knows that, that will be the case here, but that's probably a reasonable way to think about it.

In terms of the valuation, I wouldn't speculate, but we are confident it's going to be an attractive valuation for our shareholders. We know from other life insurance transactions recently, there is a wide range of interest in assets like our preneed business. And we're confident that it's not valued appropriately in our stock. And that whatever we do here will unlock and create value for our shareholders over the next 4 to 9 months as we work through a process and then hopefully a closing.

All right, thank you. And I think that was the last question. So with that, I want to thank everyone for participating in today's call.

In summary, we're very pleased with our year-to-date performance and believe the recent strategic announcements we've just made to focus even further on our lifestyle and housing offerings will ultimately increase our earnings momentum and cash flow and deliver value for our shareholders over time.

We'll update you on our progress in the fourth quarter earnings call in early February. In the meantime, please reach out to Suzanne Shepherd or Sean Moshier with any follow-up questions. Thanks, everyone.

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