

Assurant, Inc. NYSE:AIZ

FQ2 2008 Earnings Call Transcripts

Thursday, July 31, 2008 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2008-			-FQ3 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.63	1.55	▲ (4.91 %)	1.51	6.60	7.12
Revenue	-	-	▲ (0.30 %)	-	-	-
Revenue (mm)	2255.50	2248.76	-	2321.99	9155.53	9882.42

Currency: USD

Consensus as of Jul-31-2008 11:12 AM GMT

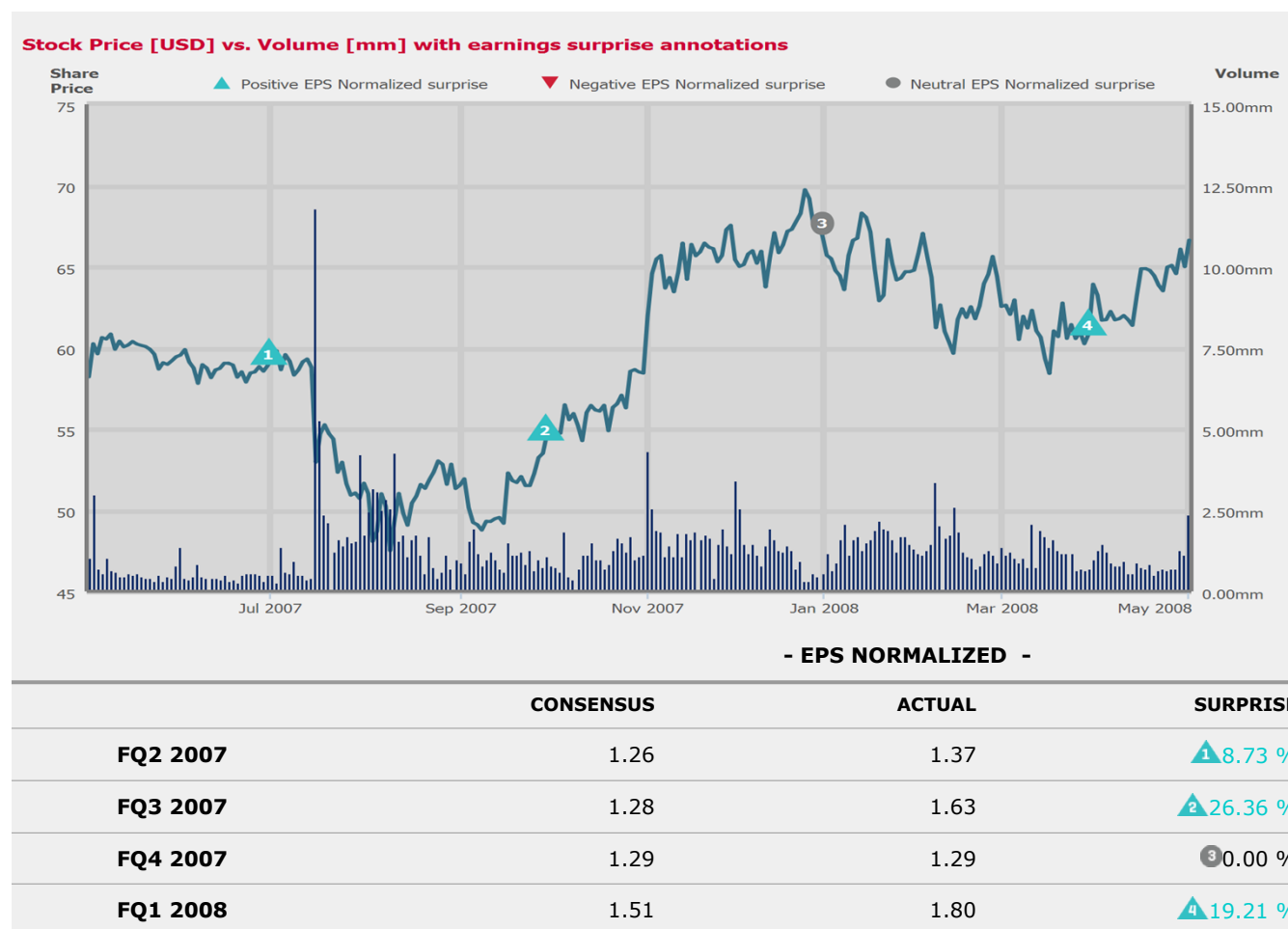


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	10

Call Participants

EXECUTIVES

Christopher Pagano

Don Hamm

Gene Mergelmeyer

Melissa Kivett

Michael J. Peninger

Robert B. Pollock

S. Craig Lemasters

Keith Walsh

Citigroup

Mark Hughes

SunTrust Robinson Humphrey

ANALYSTS

Adam Klauber

Fox-Pitt Kelton

Daniel Johnson

Citadel Investment Group

Edward Spehar

Merrill Lynch

Elizabeth Malone

Keybanc Capital Markets

John Hall

Wachovia Securities

John Nadel

Sterne Agee

Jukka Lipponen

Keefe, Bruyette & Woods, Inc.

Steven Schwartz

Raymond James

**Unidentified Company
Representative**

Vinay Misquith

Credit Suisse

William Wiltz

Morgan Stanley

Presentation

Operator

Welcome to the Assurant Second Quarter 2008 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer period. [Operator Instructions].

I would now like to turn the call over to Ms. Melissa Kivett, Senior Vice President, Investor Relations. Please go ahead, Ms. Kivett.

Melissa Kivett

Thanks, Jill.

Welcome to Assurant's 2008 second quarter earnings conference call. Joining me with prepared remarks are Rob Pollock, President and CEO of Assurant; Mike Peninger, our Interim CFO; and Don Hamm, President and CEO of Assurant Health. I'm also pleased to be joined by the other members of our senior leadership team; Gene Mergelmeyer, President and CEO of Assurant Specialty Property; Craig Lemasters, President and CEO of Assurant Solutions; and Chris Pagano, our Chief Investment Officer and Treasurer.

Prepared remarks will last approximately 25 minutes after which time we will open the call to your questions. This morning we issued a press release announcing our first quarter 2008 financial results. The press release as well as corresponding supplementary financial information may be found on our website at assurant.com. We also issued a press release this morning announcing our intention to acquire Signal Holdings.

Some of the statements we make during this call may contain forward-looking information. Our actual results might materially differ from those projected in these forward-looking statements. We caution you about relying on these forward-looking statements and direct you consider the discussions of risks and uncertainties associated with our business and results of operations contained in our 2000 Form 10-K and subsequently filed 10-Qs and 8-Ks, which can be accessed from our website.

The company undertakes no obligation to publicly update or revise any forward-looking statements. Additionally this 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 this morning's earnings press release and the supplementary financial information posted on our website.

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

Robert B. Pollock

Thank you, Melissa. Good morning everyone and thank you for joining us today.

We are pleased to share with you Assurant's financial results for the second quarter. Despite a slowing economic in uncertain capital markets, Assurant had a solid quarter and strong first half of 2008. Our strategic long-term focus on our specialty business model allowed us to deliver double digit growth in net operating income and an annualized operating return on equity well in excess of 15% for both the quarter and year-to-date.

In addition, since June 30th of 2007, we have grown our diluted book value per share by 15.3%, excluding accumulated other comprehensive income and 13.9% when AOCI is included. While we are not immune to the volatility in the capital markets and have had some impairments in our investment portfolio, we have maintained our conservative and disciplined investment philosophy. Our business continues to deliver healthy cash flows, our capital position remains strong, and we raised our dividend in May.

We continue to look for opportunities to further improve our capital position. Last year, we expected free cash flow at the holding company in the range of 170 to \$230 million. This amount is after funding needed

to support business growth, dividends to shareholder, interest on our debt and corporate expenses. I'm pleased to report this amount may increase in 2008 as a result of discussion with A.M. Best.

The capital charge related to business growth will be modified for our specialty property business. This will increase the cash available from that business. The actual amount will depend on our 2008 results in specialty property, which will be much clearer after the hurricane season. We will provide an update on our next call. We are very pleased this morning to announce our intention to purchase Signal Holdings.

Signal Holdings is a strategic acquisition that comes right out of our capital management play book. It builds an existing business that we have targeted for future growth. Signal Holdings will provide solutions with the deeper integration of the value chain in the wireless market for extended service contracts. Our strong balance sheet and operating cash flows provide us the flexibility to make this acquisition without accessing the capital markets.

Moving to solutions, net operating income and net earned premiums were up for the quarter and the first six months as we faced the challenging economy head on. Growth in income was primarily driven by results from domestic service contracts offset by results as we work to build our international operations. Our targeted areas of preneed and international were the primary drivers of the net earned premium growth.

Although we grew net operating income and solutions, we did experience additional losses in a Brazilian credit life program. While this product is unique to Brazil, we are carefully reviewing experience with it in an effort to help us improve the risk management tools we use to monitor all of our businesses. To temper the impact of an economic slow down in service contract sales, we continue to focus on our key growth drivers, which include adding products with existing clients, expanding our distribution channels like wireless, adding new clients, and developing new products.

And as with all of our businesses, our products provide peace of minds for our customers during good times and bad. While the economy is challenging, specialty property is performing well and are firming the strength of our diversified strategy. Specialty property again delivered strong profitability and revenue growth during the quarter.

We support government efforts to ultimately improve the mortgage market and initiatives such as HOPE NOW, which provides financial counseling to homeowners in need. Finally, we anticipate continued consolidation in the mortgage market. And we believe we are well positioned by our alignment with market.

Don Hamm is here today to discuss our results in Health and update you on what we are doing to deliver long-term profitable growth in the individual medical market. Assurant's employee benefit continues to focus on delivering value in the small employer benefits market. While second quarter net operating income is down, overall loss experience continues to be favorable. Net earned premiums for the second quarter are up slightly compared to 2007. We believe our transitional way from the larger case market is largely completed.

So in summary, despite the slowing economy, our results continue to demonstrate the enduring quality of our diversified specialty insurance strategy. Our financial foundation is strong and our capital position provides the flexibility to capitalize on emerging opportunities. Before Mike reviews the business results for the quarter, I'd like to turn the call over to Don Hamm to discuss Health. Don?

Don Hamm

Thanks Rob and good morning everybody.

Assurant Health's results this quarter reflect the continuing the challenges of the competitive marketplace. Non-operating income for the second quarter was \$27.7 million, down 18% from a year ago, and \$65 million for the first six months, down 30% from the first six months of 2007.

Combined ratios increased the 130 basis points in the quarter and 60 basis points for the six-month period due to higher loss ratios and lower expense ratios. The loss ratio pattern on the first quarter to the

second quarter reflects very favorable development on year-end reserves and somewhat less favorable development on claims incurred in the first quarter.

Overall, we believe that the loss ratios for the first six months to 2008 is consistent with our pricing target. We have maintained a consistent reserving methodology throughout this period. We previously discussed our expectations that the combined ratio would gradually increase. Our desire is to stimulate revenue growth in individual market through pricing actions, which would gradually lower the ROE.

The increase in the combined ratio in 2008 is consistent with this expectation. However, we have not yet seen the increase in sales. We will continue to closely monitor our emerging experience. Net earned premiums were \$487.87 million in the quarter, a \$983.8 million for the first half of 2008, down 5 and 4% respectively. During the first half of 2008, continued decline in small roof premiums was accompanied by relatively flat individual medical premiums.

Intense competition has adversely impacted our revenue growth. However, we are taking steps to respond to this challenging marketplace. We continue to develop innovative products and services to better meet the needs of individual medical customers. We introduced several new innovative product features in July. These features included patient care. A new independent advocate help customers better evaluate their healthcare choices and costs.

Another new program one decreasing deductible, provides deductible credits to our customers and rewards royalty. And lastly [indiscernible] enables our customers to confer to Board-certified physician over the telephone. These features are aligned with an emerging trend in the marketplace. Individuals want to more actively manage their own healthcare decisions.

Broad distribution is one of our core strengths and is a competitive advantage. Our direct sale center is gaining traction and direct sales are increasing; in addition, building up on our strength with independent agents. We recently implemented a new lead enhancement generation program. This program provides high quality leads and a sales management process to targeted agents. One of our key distribution channel is our exclusive long-term alliance with State Pharma [ph]. We currently are in negotiations to extend our eight year partnership.

Overall, Assurant Health remains focused on long-term profitable revenue growth and the individual medical market. We will continue to bring innovative flexible solutions to growing individual medical marketplace. And we believe Assurant Health has the necessarily capabilities in risk management, distribution, and administration to success over the long-term.

Now, I'd like to the turn the call over to Mike Peninger.

Michael J. Peninger

Thanks, Don. In the face of the challenging market, Assurant Health is taking the necessary steps to maintain its position as a leader in the individual health marketplace.

Now let's review our consolidated results and the results from each of our other specialty businesses. Assurant's net operating income during the second quarter of 2008 was up 10% in the second quarter of 2007 from \$185.8 million and 13% per share in a full diluted basis to \$1.55 led by the strong performance of specialty properties.

Net earned premiums increased 11% for the quarter compared to the second quarter of 2007 to \$2 billion driven largely by growth in key targeted areas of creditor-placed home owners extended service contracts and premium. Our net investment income increased 6% from the year-ago quarter \$201.2 million. For the first half of the year, investment income was down 2% to \$399 comparable period last year, because we had 33.1 million less investment income from real estate joint venture partnerships.

And excluding income from these real estate partnerships, investment income for the first half of 2008 is 7% higher than the first half of 2007. Net investment income increased 14% in second quarter of 2008 versus the year-ago quarter to \$190 million or \$1.59 per diluted share. For the first half of 2008, net income increased 9% in the comparable period last year to \$376.8 million or \$3.16 per diluted share.

Net income for the quarter in half year benefited from \$26.6 million of after tax income related to the gain on the sale of an inactive subsidiary. We realized \$22.4 million of net after tax losses on investments during the quarter including \$17.9 million due to other than temporary impairments in our investment portfolio.

Our impairment process is detailed in our 10-K disclosure. In making our impairment decision, we implied consistent methodology that combined the quantitative framework with our best judgment to evaluate the factors contributing to changes in security values overtime. Our impairment process is simplified by the fact that approximately 98% of our available for sale investments are designated level one or level two under FAS 157 and have readily available market values.

Assurant Solutions net... second quarter net operating income was \$32.4 million, up 7% versus the second quarter of 2007. Net operating income for the first half of 2008 was up 8% from the first half of 2007's \$79.9 million. The domestic combined ratio improved 140 basis points from the second quarter of 2007 due to improved loss experience in the domestic service contract business and reductions in commission payments to certain clients that we discussed last quarter. Preneed results were also favorable for the quarter after adjusting for a \$3.5 million after-tax benefit in the second quarter of 2007 from the sale of our independent U.S. franchise.

The international combined ratio increased 170 basis points compared to the second quarter of 2007 to 111.4%. The primary reason for the increase was a \$6.9 million after-tax charge due to unfavorable loss experienced in a credit life product unique to Brazil. We identified issues with this product last year and recorded charges of \$4.4 million after tax in the second quarter and \$2.2 million after tax in the third quarter. During the second quarter of this year, we received the large number of claims from a client that we terminated last year. We have established a reserve for these claims while we conduct a thorough analysis of their ability.

In addition, we adjusted our reserves for the entire product to reflect the impact of this new information. Without the addition of losses in Brazil, the international combined ratio would have been 106% in the quarter. This continues to be above our long-term target. As we previously discussed, we continue to make investments in our six developing countries, and we use established metrics to monitor our progress in each of them.

We review results each quarter with country managements that we can reassess and make changes to plans if needed and share what we have learnt among different country managers. Second quarter general expenses for developing countries were \$10.9 million compared with \$8.0 million in the second quarter of 2007. Due to growing sales expenses in these developing countries decline to 56% of gross written premium in the second quarter versus 66% in the second quarter of 2007.

Solutions results for the first half of 2008 were positively affected by the \$11.7 million of after tax income from client related recoverables that we mentioned in the first quarter. As previously reported, second quarter 2007 income benefited from \$3.5 million after tax and fees related to the sale of our U.S. independent preneed franchise and \$4.5 million after tax income from a client commission payable reconciliation project.

Solutions net earned premium were up 13% for the quarter and 15% for the first half of 2008 versus the comparable period in 2007. These increases were driven by the continued growth in our domestic and international service contract business growth in preneed and the benefit of foreign exchange.

As our international business continues to gain scale, we have introduced additional disclosures and the impact of foreign exchange into our financial supplement. Our domestic gross premiums declined 11% for the both the quarter in six months. This was primarily driven by slowing retail sales and the closing of the comp USA stores in.

International growth written premiums however were up 11% in the quarter and 14% for the first half compared with the same periods in 2007 primarily due to the continued strong growth and service contracts and credit insurance. Fee income is also growing up 16% for the quarter and the first half of

2008 versus the comparable periods in 2007, driven by our recent international acquisitions and our domestic and international extended service contract business.

Rob mentioned today as announcement of our intended acquisition of Signal Holdings. We have been a partner to Signal since 2001 and are pleased to take our partnership to the next level. We expect the acquisition to be accretive in 2010 and modestly dilutive in the fourth quarter of 2008 and 2009 due to integration costs and the amortization of intangible assets.

We will provide additional details of the financial impact of the transaction at the close which we anticipate will occur in the fourth quarter. The Signal acquisition demonstrates our ability to diversify our specialty businesses by deploying our capital in an area we are targeting for growth.

Next assurance specialty property delivered record net earned premiums and record profitability during the quarter. Net operating income was up 45% to \$131 million for the quarter and 55% to \$255.8 million for the first half of 2008 compared to the same periods in 2007. Net earned premium growth, excellent combined ratios and increased investment income all contributed to our results.

We historically recorded (ISO) catastrophes greater than \$5 million per event and we have had no single weather events that reached that threshold this year. However there was an unusually high frequency of ISO events in the second quarter of 2008 which resulted in \$11.5 billion after tax of catastrophe losses in comparison to \$3.4 million after tax in the second quarter of 2007.

As we enter the most active months of hurricane season we've taken the necessary step to protect the capital base of our company as well as our clients and customers through our 2008 cap reinsurance program. We were able to secure higher levels of coverage, report our significant growth while maintaining strong deductibles comparable to last year and under more favorable pricing. In June we issued a detailed press release on the program that's also available on our website.

The loss ratio for the second quarter of 2008 was 32.2% down from 33.2% in the second quarter of 2007. The loss ratio decreased despite our elevated our catastrophe losses due to our good spread of risk and continued excellent non-catastrophe loss experience. The expense ratio continued to improve for the second quarter and year-to-date compared to the same periods in 2007, primarily due to benefit scale.

Organic growth in credit replaced business drove a 36% increase in net earned premiums, \$533.9 million in the second quarter and 33% to \$1 billion for the first half of 2008, versus the comparable periods in 2007. Growth was primarily driven by average insured values in the insurance placement or penetration rates. As replacement costs have continued to increase and our mix of business changes, average insured values have risen to \$170,000 in the second quarter of 2008 compared to \$144,000 in the second quarter of 2007 and \$164,000 in the first quarter of 2008.

We continue to see growth in placement rates although there are no changes to the range of placements that we have previously provided, mainly 6% to 15% for subprime accounts and 1% to 2% for our prime accounts. Overall loan counts have remained relatively constant. While the majority of our credit replaced premiums are non real estate owned, real estate owned premiums continued to increase to 22% of credit replaced premiums for the second quarter of 2008.

Specialty properties results also reflect a 35% increase in investment income over the second quarter of 2007 to \$32 million due to higher invested assets. Moving to a shared employee benefit net operating income decreased 13% during the quarter to \$18.6 million and 31% to \$35.0 million for the six months as a result of higher loss experience versus the excellent results of the comparable period of last year. First half 2007 results also benefited from \$9.2 million of after-tax income from real estate joint ventures; even with the uncertainty in the economy our geographic and industry diversification and focus on the small employer helped disability incidents remain favorable.

Net earned premiums during the quarter increased slightly to \$273.2 million and were down 3% to \$553.7 million for the first six months versus the comparable period last year. Excluding single premiums from closed blocks of six month period for both years, net earned premiums were up \$1.9 million versus 2007. Compared to the same period in 2007, sales were down 4% for the quarter and 2% for the year reflecting our pricing discipline.

In our corporate and other results, we reported a net operating loss of \$18.8 million for the second quarter of 2008 compared to a loss of \$2.9 million in the second quarter of 2007. The corporate and other net operating loss for the first six months of 2008 was \$24.7 million compared to a loss of \$10.5 million for the first half of 2007. The increase in the operating loss for the quarter and six months is primarily the result of increased expenses relating to the ongoing SEC investigation of loss mitigation products, increased compensation expenses, and a decrease in investment income.

While we expect the corporate after tax run rate of approximately \$50 million annually, the quarterly results can fluctuate. Our balance sheet remains strong. As of June 30th 2008, total assets were \$26.2 billion and total shareholders equity excluding accumulated other comprehensive income was \$4.4 billion, up 9% from year end. Book value per diluted share excluding AOCI grew 9% to \$36.68. Our debt to capital ratio excluding AOCI improved to 18.3% from 19.7% at year end 2007.

Let me finish my comments by providing some information on our investment portfolio as of 6/30/2008 focusing on those asset classes we've all been reading about in the news. Many of these statistics can be found on page 15 of our statistical supplement. First, our total market value exposure to market fact securities, which included 58 million of subprime assets backed securities with 10% of total fixed maturity assets and 7% of total invested assets. Second, our market value exposure to preferred securities, which include 95 million of tax advantage preferred securities issued by either Fannie Mae or Freddie Mac with 5% of total invested assets.

Finally our commercial mortgage loans, which had an aggregate loan to value ratio of approximately 40% using property values based largely on second quarter 2008 appraisal, were approximately 10% of total invested assets. So in total, it's impotent to remember that each of these asset classes that are currently getting so much publicity represents only a small portion of our diversified investment portfolio.

In summary, Assurant's focus on the disciplined execution of our proven diverse specialty business strategy continues to deliver strong results through shareholders. By leveraging our core capabilities and expertise and specialized markets in which we operate, we continue to make steady progress in our key targeted growth areas.

Now I would like to turn things back to rob to open the floor for questions.

Robert B. Pollock

Thanks Mike. Operator, we are ready for questions.
Question And Answer

Question and Answer

Operator

[Operator Instructions]. Our first question is coming from Jukka Lipponen from KBW.

Robert B. Pollock

Good morning, Jukka.

Jukka Lipponen

Keefe, Bruyette & Woods, Inc.

Couple of questions: first of all, can you give us a little more color on this Brazil contract again. I don't know if I heard it correctly, but I guess you are setting up reserves, expecting or having these claims come in, but you are not sure yet whether these actually are valid claims?

Unidentified Company Representative

Sure. Craig, you want to comment on that?

S. Craig Lemasters

Yes, absolutely. Let me give a little more detail, Jukka. As Mike mentioned, what specifically happened in the quarter we received a large number of late reported claims from one of the clients that we previously cancelled. And so this quarter we do believe we set up adequate reserves specific to those claims. Additionally we took that new information and set up our strengthened reserves for our future claims on the whole product line.

So again we are thoroughly reviewing each of these claims for validity before we pay any of them. In terms of ultimate resolution on this though, what we are doing is actively engage now in settlement discussions with each of the three clients that we are targeting to conclude by year end. And the goal of course this resolution is to finalize all prior and future liability within the amount that we've now reserved. And we'll keep you posted on the progress of that settlement or the settlement conversations.

But just a reminder: Rob mentioned it earlier. This is a product that's unique to Brazil, to not repeat in any other country and again remain we're absolutely committed as always to learn from the situation and continue to improve the overall risk management process that we employed. It's also important to know and I want to make sure, I am clear that with the exception of this product in Brazil our operation is progressing nicely its growing, its on plan and it really does remain an important part of our overall targeted international expansion strategy; so again we'll keep you updated on the progress of the settlement discussions.

Jukka Lipponen

Keefe, Bruyette & Woods, Inc.

And Greg can you give us a little more color in terms of the developing countries, the expense ratio continues to come down, where are we in terms of the profit contribution from those countries and then also what's the status in China?

S. Craig Lemasters

Sure. In terms of developing countries, I mean again it's still a long-term process, it's a long-term commitment, and we're just at various stages. I think I mentioned on the last call or we mentioned recently that a country like Mexico for example is progressing faster than some of the European countries. So we're just at various stages, but we wanted to introduce last quarter this ratio of gross written premium just to give you... I think it's a more accurate measure versus the pure spend on how we're growing the top line, which obviously is the first priority so these companies can flow down and be contributors. And I would say as of now we're still on plan for these countries, as Mike mentioned we have

very specific metrics in place that if we fall behind or don't believe we can achieve the long-term goals, then we would certainly exit a country and re-invest in another country.

Again, as I've mentioned the good news is we have a number of new markets, that we haven't gone to yet so we certainly wouldn't delay a decision if a country's is not going to meet the hurdle because there's plenty of places for us to invest. On China, China is on our plan we have opened our services company there which again doesn't require a insurance license so that company is officially up and running. We've found our general manager, and starting to build the team there, we're in the process of putting on three global systems into China and obviously actively pursuing new clients there. Again our approach there is to be very prudent, its great market from opportunity wise but certainly different than some of the other markets we have entered.

So we are trying to be very thoughtful and prudent about how we launch clients, the testing processes etc. On the insurance side again we've opened our rep office in China which is really a two year process, at the end of the two years. The rep office being opened then we can make former application for our actual insurance license, so that's still always down the road. But I'm happy with the progress again I think the key is we were able to find just the terrific General Manager, which is where we started in all countries with as a green [ph] feel approach building with great talent.

Jukka Lipponen

Keefe, Bruyette & Woods, Inc.

Last question on the Signal acquisition there what kind of margin are you expecting on that \$150 million of additional revenue?

Unidentified Company Representative

Jukka, I think that it will be consistent with our target in the U.S. for our combined ratio obviously we've got to work through the integration. But we think we'll pick-up some scale here, we have really got to get in and analyze all the details of the integration to get back to you. I think the key take away however is perfect deployment of our capital, exactly what we want to do with it. It's in an area Craig has been looking to, to expand because we've seen growth opportunities and to me it's just again a perfect execution on what we try and do in the M&A area with our excess capital. So we'll get thing integrated, we think it better positions us with a deeper penetration in the value chain and we're very excited about the prospect Signal brings to us.

Craig, you want to comment?

S. Craig Lemasters

Yes, just one other comment on this acquisition in the region. Why we're so excited about is we really look at it as combining the best of both worlds. Signal has built a terrific back office operations, repair and logistics business and we just thinking combining that with our sales and marketing expertise and throwing on top of that a very unique product that we think we introduced to this space, a sure connection last year. It's just a great combination and gives us real differentiation in an industry that's growing. I mean the wireless industry is growing not just domestically, but internationally. So this is also a great platform for introducing this product on a robust way globally. Finally, we picked up this terrific people on this acquisition. The Signal has... Tom Cloetingh, the Founder and CEO has just built a terrific team there. I'm happy to tell you that they senior management team has agreed to stay on with us, and is very excited about taking part of the Assurant family.

Jukka Lipponen

Keefe, Bruyette & Woods, Inc.

Thank you.

Operator

Your next question is coming from Ed Spehar from Merrill Lynch.

Unidentified Company Representative

Good morning, Ed.

Edward Spehar
Merrill Lynch

Good morning, everyone. I had a few questions. First, on specialty property; Mike, I think... if I heard you correctly, I think you said the overall loan count is relatively constant. The placement rates haven't really changed from where we were last quarter. But the insured values are up 18%. I guess the question is where... I guess there have to be a point where the insured value increases start to taper off. And can you give us any sense of where we are in that process?

Michael J. Peninger

I mean, Ed, we have identified a number of growth drivers in the business, and why don't we have Gene comment on those and provide some context for that.

Gene Mergelmeyer

Sure. First of all, let me just step back. In terms of penetration rates, we do continue to see those increasing at somewhat relative rates that we have over the last few quarters. Particularly starting in the subprime, which we've seen increases for clearly over the last four quarters; and in prime or so maybe over the last couple of quarters. As it relates specifically to insured value, there continues to be a number of influences on that average insured value.

Construction costs, if you look at the building cost index year-over-year and quarter-over-quarter, they are continuing to rise. We are still seeing the efforts on behalf of the agents to increase the replacement costs on the voluntary policies. That ultimately end up being the basis for which, we rate our policies. And thirdly, we did mention a bit of mix in business that is causing this. And while it's representing 22% of our premium, the real estate owned policies are adding to the averages insured value, particularly because we are getting a higher concentration of these policies in the west. The real estate owned policies are rated on loan balance. And so a places like California, Nevada, and Arizona, where we are getting some higher in force counts is helping to raise that average insured value. And we continue to see those areas driving the real estate owned enforce [ph].

Edward Spehar
Merrill Lynch

A follow-up, Gene, so did we see sequentially... this quarter, did we see the penetration rates up in prime and subprime from where they were in the first quarter?

Gene Mergelmeyer

Yes, we did.

Unidentified Company Representative

Go ahead.

Unidentified Company Representative

I... this I can say [ph] when we stay within the range we've given you, but obviously in the case of prime ones, you've got a fairly... or subprime, excuse me a fairly wide range of 6 to 15.

Edward Spehar
Merrill Lynch

Right, okay; that's helpful. And then on the corporate and other loss, Mike, his was a... you identified the \$3 million for the SEC piece, but the overall loss seemed to be if I heard you comment correctly, the overall loss seems to be almost double what you would think as kind of an annual number divided by

4 would be. Is there something... did I hear you correctly, and is there something else going on in the second quarter that increased the corporate loss?

Michael J. Peninger

Yes, I think if you go back and look at kind of the history in the corporate line, we do see some fluctuation from quarter-to-quarter, we talked about the SEC expenses, where a piece this year. We also had a number of things that were broadly kind of compensation related in various ways that added another chunk. And we also are seeing lower investment income in corporate, because the yield there is a rate of that we'd have the assets invested that are quite a bit lower than last year. So there is a lot of different pieces that go into that corporate line. And as I said in my comments, we think a reasonable run rate for an entire year is in that \$450 million.

Edward Spehar

Merrill Lynch

Okay. Well, I guess if I took that number then, that's going to say that the loss in the second half of the year is going to be less than what you had in the second quarter.

Unidentified Company Representative

Yes.

Unidentified Company Representative

Right.

Unidentified Company Representative

I think that that's what we are implying.

Edward Spehar

Merrill Lynch

Okay. And then final question, can you give us some sense of what, if we look at may be the last several years the catastrophe losses in the second quarter defined as you have defined them in your release today so not necessarily they are above \$5 million but just how are you defining them today can you give us some sense of what percentage of earned premium those have been running at?

Unidentified Company Representative

Yes, are you talking about in the second quarter yet?

Edward Spehar

Merrill Lynch

Yes in the second quarter.

Unidentified Company Representative

What we are going to do is go back and build the history for you; we have got a... Gene you want to talk about the numbers in '07?

Gene Mergelmeyer

Yes, again this was an elevated quarter and unusual although I'll also comment that we were still very pleased with these results. I mean I think representative of our risk management and our good spread of risk. We felt ultimately that may be the two percentage points that it added to our loss ratio was less than what we were seeing across the industry. Previous quarters, consistently had much less activity and, just going back and looking at the ISO storm counts, sixteen in the second quarter of this year, versus six last year. And they had much more lower levels in the previous years also.

Unidentified Company Representative

Thank you.

Operator

Your next question is coming from Beth Malone of KeyBanc.

Unidentified Company Representative

Good morning, Beth.

Elizabeth Malone

Keybanc Capital Markets

Good morning. Just a, I am going to ask just a few questions and get back in the queue. But first on the SEC investigation, is there any light at the end of the tunnel here, should we model in, this \$3 to \$5 million every quarter indefinitely, can you give us an update; and as well as an update on how you are seeing share repurchase?

Unidentified Company Representative

Sure. Well first you know we can't really talk about the SEC investigation per se Beth, what we can say is that the company is working hard to bring about a resolution of the matter with the SEC and we continue to pursue that and expenses can vary depending on particular use of outside consulting services in that area, so it can move around a little bit.

Unidentified Company Representative

Yes. In terms of the share repurchase, quite frankly if you look at our capital management strategy we've said invest in our businesses as they grow, second thing we'd like to do is do acquisitions, we're real pleased we did the Signal acquisition. That being said, we would like to have the ability to buy back shares which we have suspended while the SEC investigation is underway, quite frankly given the change in the market place, capital market conditions we really like what that's done to our balance sheet but we'd like to be buying as well and we'll resume when we think it's appropriate.

Elizabeth Malone

Keybanc Capital Markets

Okay. And then just one last question on the disability book, other carriers who you compete with on the smaller case side have reported pretty stable expectations and your disability book was down, is that mostly because of, your still transitioning your book of business or are there other factors?

Unidentified Company Representative

Well I think we're still very pleased as I said Beth with our incidence rates and disability which to me is the main bench mark that you look at. We haven't seen really any change in those overall, they are still running at very favorable levels, we had exceptionally good experience in 2007, so I guess we had kind of a difficult comparable for ourselves but I think that, incidence rate is the key metric I keep my eye on and I know John, Robert keeps his eye on and that we still feel real good about.

Elizabeth Malone

Keybanc Capital Markets

Okay, thank you.

Operator

Your next question is coming from Keith Walsh of Citi.

Unidentified Company Representative

Hi, Keith.

Unidentified Company Representative

Good Morning.

Keith Walsh
Citigroup

Hi good morning everybody. Couple of questions for Gene and then one is for Don. Gene first on the housing bill impact, basically my question is if you are placing a policy and a loan gets modified, does that change the ability for you to place the policy, would be number one.

Unidentified Company Representative

Well, again I think that is going to depend a little bit on how that loan is modified. I could talk a little bit about this bill in total. As Rob mentioned, we do support a broad-based mortgage environment. And we think it is important that the confidence be brought back to this mortgage environment. We also believe that there are provisions in the new laws that will help do that in the long-term. But that said, it's not really caused us to modify particularly in the short-term our forecasted growth assumptions. And we are going to have to continue to monitor usage and results as we go forward. The provisions in this plan are going to take time, the loan modifications that have been done to-date. I mean when you look at what the servicers and the lenders have done, they've been focusing on workouts, then they've been focusing on loan modification, which again we still see in our increases and penetration and everything associated with it.

What we'll likely... again, with the latest proposal and the FHA loan guarantee, they are still likely to do those two things, the workouts, their own modifications before they are going to that FHA loan guarantee and before they have to take those rights offs. So, we think in terms of timing, right now it's slotted already with an effective date of ten months. If you hear what the FHA has to say, I mean they believe it could even take much longer to implement.

So we think it's going to be a good thing. We just think it's going to take a long time to get it implement. We still feel that the industry macro-economic factors that have helped drive some of our growth particularly policy penetration, which is the decline in home prices and arises in foreclosures and arises in unemployment. They are still expected to continue as is the type of credit market, and lower consumer confidence. So when you look to average and shared values, it hasn't been influenced by the lower home prices, and our credit replace is following kind of replacement costs as they have in the industry and then REOs are following loan balance. So we are continuing to see the same macroeconomic factors continuing for a period of time going forward.

Keith Walsh
Citigroup

Okay. Then just on the prime book of business, I guess 26.5 million loans is what we were told [ph]. You said it's still in the historical ranges. How is that possible if what we've seen just listening to the commentary from every bank's CEO this quarter, specifically Jamie Dimon talking about a tripling of this net charge offs in the prime book over the next year. How come we have not seen that sort of a movement within your book? What's different there?

Robert B. Pollock

Well, we haven't seen a tripling, but again, we have seen an increase in our penetration. And as I've mentioned in previous quarters, there is a bit of difference between the prime and sub-prime books. Many of the prime portfolios were not providing real estate owned product for, and so once it is going into foreclosure, we may not have the opportunity to write that premium. But we are writing it certainly in some portfolios, and we are picking up premium through delinquencies for closures; and by the way the other reasons that we normally first place in the book.

Keith Walsh
Citigroup

Okay. And then just one question for Don on Health; we've been talking I guess about premium growth here for the last couple of years. And I just wanted to... I think you just posted actually the first year-

on-year decline in core individual premium since you guys went public. I've seen [ph] the competitive environment, is this product just too expensive for people?

Don Hamm

No, I don't believe so, Keith. I think this is a growing marketplace. More people are entering into the individual space through their early retirements, through small employers, less frequently offering coverage. And a company like Assurant Health, we have a wide range of products from the end of the spectrum of relatively low premium with less benefit to higher premium and higher benefit.

We have products such as Right Start designed for those people that are newly into the system and products such as HSAs for those that are early retirees. So we are meeting the bridge to Medicare and beyond. So as we've mentioned before, the competition is intense in individual. Other companies have seen this as an attractive segment and now also they're in the business, now there are sometimes you get a bit bruised and sometime those bruises can turn purple, but you keep working along heading into the future and you take each opportunity to keep improving the value of products and services you provide to our customers and, we do have some headwind from the aggressive pricing that we have noticed from the large national players and we believe that our new portfolio is well positioned and we are cautiously optimistic that we will continue to have some success in this business over the long term.

Keith Walsh

Citigroup

Okay, thanks.

Operator

Your next question is coming from Mark Hughes of SunTrust.

Unidentified Company Representative

Good morning Mark.

Mark Hughes

SunTrust Robinson Humphrey

Good morning. You did better on the loss ratio on the domestic service business, anything in particular driving that do you expect that to continue to improve?

Unidentified Company Representative

That, again I think this is part of our core capability of managing large clients and I'll let Craig comment on the particulars but I really think this is embedded in that contracting and working with the large client.

S. Craig Lemasters

Now that's right and Mark it goes back to the comments a year ago we had a couple of our two clients that were not performing up to our expectations and we put the things in place to correct that, that's continued to improve so, we are very happy with that progress; but I would just say overall again we are just committed to get better and better at the risk management process overall so we have seen improvement in other areas of that business as well. So we'll keep investing in that. It also helps us getting back to the international growth, all of these core capabilities of risk management specifically in the service contract space we can employ globally, so it's well worth our time to keep investing in this.

Mark Hughes

SunTrust Robinson Humphrey

Thank you. Two other brief ones; was the gain on sale included in revenue anywhere or is that just below the line?

Unidentified Company Representative

You mean the inactive subsidiary gain?

Mark Hughes

SunTrust Robinson Humphrey

That's right.

Unidentified Company Representative

It's below the line.

Mark Hughes

SunTrust Robinson Humphrey

Okay. And then profitability on REO; is there any different from the non-REO business?

Unidentified Company Representative

We have constantly maintained combined ratios across the whole portfolio REO and...

Mark Hughes

SunTrust Robinson Humphrey

Thank you.

Operator

Your next question is coming from John Nadel from Sterne Agee.

Unidentified Company Representative

John, welcome back to the sell side.

John Nadel

Sterne Agee

Thank you very much it's great to be back in this volatility. I have a couple of quick questions for you guys. Don on the health side I may have misinterpreted your commentary from your opening remarks, is it fair to interpret those comments saying that the new or the second quarter combined ratio is a better indication of where we are thinking about being going forward from here or was it some combination of the last couple of quarters?

Don Hamm

It's the year-to-date combined ratio in 2008.

John Nadel

Sterne Agee

Got it.

Don Hamm

We do you think a key take away is that combined ratio is consistent with our expectations, and this part of the process we talked about before of gradually reducing the ROE to stimulate growth in individual medical business. As we've commented we've fit some headwind with aggressive pricing actions, but we still remain on track for our destination over the long-term and we believe we have the right capabilities of risk management distribution and the administration. We see the market place growing and we take a long-term conservative and disciplined view on the business. And we believe the new product portfolio will help us in that regard, so we do believe that we are on track and the year-to-date combined ratio is indicative of where our pricing expected us to be.

John Nadel

Sterne Agee

Okay. Just going back to the corporate expense levels; I know Ed was hitting on this a bit and I just want to follow-up one time on this. Is... was the statement that sort of expect in the range of \$50 million for the full year?

S. Craig Lemasters

Right.

John Nadel
Sterne Agee

And that's clearly not including the interest expense or the deferred gain. Correct?

Unidentified Company Representative

Correct.

Unidentified Company Representative

Right.

John Nadel
Sterne Agee

Okay.

Unidentified Company Representative

We've got a, reconciliation on one page and the supplement, I think, John.

John Nadel
Sterne Agee

Yes. Okay, quick question on specialty properties thinking about the other category, starting to see some very good growth year-over-year both in the gross written and in the earned premium. Can you talk about I guess two things; just generally what you're seeing in your efforts on the renters and auto side and then also any impact from the severe flooding in the Midwest during the quarter and should we think about your administrative capabilities for the government?

Robert B. Pollock

Before I turn it over to Gene, I mean I think as we've mentioned we are trying to always come up with additional products that can find and build a special need in the marketplace; Gene has a couple of those. And Gene, you want to comment on what is that going on?

Gene Mergelmeyer

Sure. Actually we've been very pleased with that increase in other premium. While it's still not a larger part of our business, we have been able to incubate a number of smaller products that we have had some success with.

When you look to premiums and earned premiums in particular, they've been driven by mainly a couple of products. We have a creditor-placed flood product that has benefited from what has happened in the rest of the industry, and then also our renters product, which we have touched on a couple of times. And we are continuing to see further acceptance of that model in the industry. And we think we've got some terrific differentiation in our distribution model.

As it relates to our creditor-placed auto or CPI product, we continue while again premiums are still small on this block, we still believe that it's going to provide us with some long-term profitable growth opportunities and we believe strongly that there is unmet needs in that market. As we discussed, it's going to take some time to develop. And as I previously mentioned, I think we thought it was going likely maybe start with some tracking of portfolios for insurance like a second phase of being... placing the creditor-

placed insurance. And to that end, I can actually say that we've recently been successful in executing on that strategy. We have now assigned and implemented a couple of significant accounts for insurance tracking contracts. That's really going to increase our long tracking by about 900,000 loans and lease tracking by 300,000.

Now we believe it's significant, because we competed for this business, and we won. And so it's somewhat of an important validation for us that our service offering and it's going to give us scale that we need in the auto space and make us a large player there. I do want to reiterate that it's for tracking only at the current time. So it's not going to provide any significant premium or bottom-line impact say in '08. But you know we hope to move them to premium placements once we kind established our tracking proficiency, which again is going to take time, but we still believe we've got a compelling business model for the client and we like our long-term challenge there.

John Nadel
Sterne Agee

And just not going to necessarily keep it entirely on this, but any impact from the floods?

Gene Mergelmeyer

Actually again looking at this whole quarter with the hurricanes, the floods, we still believe that impact is going to be small. We are not expecting any reportable events to come out of this. Again, I think conducive to our risk management strategy and spread of risk, the NFIP continues to be part of our strategy and will and has helped offset some of the lose and has act some of the hedge in regard to some of the underwriting that we do in our creditor-placed flood business.

John Nadel
Sterne Agee

Okay. And then last question on the investment portfolio. Just looking at the significant decline sequentially in the accumulated other comprehensive income driven by the gross unrealized.

Unidentified Company Representative

Correct.

John Nadel
Sterne Agee

Is it fair to assume that the majority of that decline was driven by rising interest rates or is there some other reason?

Unidentified Company Representative

Chris?

Christopher Pagano

Hi, John. I think... keep in mind that when we talk about investment portfolio, you're talking about a \$12.5 or \$13 billion net invested assets with about a six-year duration.

John Nadel
Sterne Agee

Yes.

Christopher Pagano

So moves of 1% in interest rates of any sort will produce 750 or \$800 million of change in unrealized whether that's up or down.

John Nadel
Sterne Agee

Right.

Christopher Pagano

So to think about what happened over the first six months of the year and the last... and in particular for the second quarter that's pretty consistent terms of a change in unrealized. What we can tell you though is the increase in interest rates because of the operating cash flow, because of the conservative approach to the portfolio, we are starting to put assets on at better levels for better long term interest rates going forward

Unidentified Company Representative

And I'd just add to that, Chris and his team have a tremendous ALM capability that we have in place that's part of our risk management and again what we benefit here is our liabilities aren't callable, we're in a situation where it gives him a little latitude to operate that many other players don't have that again put us in a enviable position.

John Nadel

Sterne Agee

Great, may be I'll sneak one more in, Rob with the acquisition and spending \$250 million does it change your view looking forward about additional acquisition opportunities.

Robert B. Pollock

No in fact the, we have had quiet a bit of activity going on in the M&A area and we're going to continue to pursue both organic growth and things that can help us build our businesses and plan to do so.

S. Craig Lemasters

And we think our strong capital position really gives us the flexibility to stay active there.

Robert B. Pollock

Yeah; again I... we have a situation here where from the M&A side where we have done numerous small fill in acquisitions over the last couple of years think about the Safeco acquisition and the Mayflower acquisition, Launcher [ph] Centerpoint, Rayleen [ph], I mean having we have had numerous of these acquisitions take place all helping us build out our platforms which we think are going to benefit us moving forward.

John Nadel

Sterne Agee

Thank you very much.

Operator

Our next question is coming from Vinay Misquith from Credit Suisse.

Unidentified Company Representative

Good morning Vinay.

Vinay Misquith

Credit Suisse

On to Brazil life product I just want to clarify whether that's a discontinued product?

Unidentified Company Representative

Craig you want to talk about that?

S. Craig Lemasters

Yes, sure. There are three producing clients Vinay on this product in Brazil. Two of them are cancelled, the third client was when we found the problem with the product was converted to a monthly pay product, which has acceptable margin, returns and is operating on plan. So for all three, the product that specifically gave us problem, was discontinued. We just converted the one to the monthly pay product. And again the key for us is, we're actively negotiating settlement with all three and are targeting year end to get that completed.

Vinay Misquith

Credit Suisse

Sure. So for the two clients, you have sort of discontinued the business, but for one client it still continues?

S. Craig Lemasters

That's right. For the one client it continues but again we converted the product to what we call a monthly pay product which gives us much more robust risk management capabilities and so the product that they continue to ride is performing on expectation.

Vinay Misquith

Credit Suisse

Fair enough, thanks. The second question was on the health side. Don, just wanted to clarify that's it's not a cost issue but you are actually taking actions to reduce your price because you are trying to sort of balance the trade-off between margins versus growth?

Unidentified Company Representative

Yes, I think Vinay, you kind of summarized it well. I think Don pointed out number of years ago at Investor Day that we would certainly be willing to take a reduced ROEs for more revenue volume and we've taken pricing actions to do that and you know we've not seen yet the increase to the top-line. But this is a long term play in this business, we understand it very well. And as you know when Don talked about some of the new products we're introducing, I think they also importantly address segments of the buying population that maybe hadn't been addressed this frequently in the past. So trying to get to that consumer an insight on different segments of that buying public is something we're doing a lot of that help. And we believe that some of the new products we are rolling out will help there.

Vinay Misquith

Credit Suisse

Sure, and how is the competition in this segment, has it lead off?

Unidentified Company Representative

It's a continuous process of assessing the competition. Now we are active in 44 states and we have different competitors in each state. So it's hard to get an overall view on it. We did note with a lot of interest the challenges that lot of larger international like companies have recently talked about in their business, in their risk based business. My own history is that there are times when people do price aggressively and it usually occurs. And it pace a way a bit as people make adjustments. I would expect some of these players to make adjustments. There are usually a lag between when they recognize the problem, and when they implement rates. So I think the trend should be positive for us.

Let me also point that the second quarter is historically our lowest sales quarter. There is a bit of a seasonality there. And we do believe there were some movement of business from the second quarter to third quarter as people were aware in June of our new product capabilities that had some features that weren't available. And to Bill Ponoroff's [ph] comments, this part of portfolio really demonstrates our focus and our innovation. Of all features I mentioned, no other individual company has those available today. And it shows that with us being focused on the segment, being closer to the business, I think we are more attuned to the needs of the customers. And ultimately it is about serving customer needs, and doing it in the best possible efficient way in our easy doing business and these capabilities on our new portfolio give

us a good sense that we are well positioned and remain on our focus, so long-term profitable growth in this business. And once again it's a great market and Assurant Health has the right stuff.

Vinay Misquith

Credit Suisse

That's clear. Thank you.

Operator

Thank you. Your next question is coming from Dan Johnson from Citadel Investment Group.

Robert B. Pollock

Good morning Dan.

Daniel Johnson

Citadel Investment Group

Good morning. Rob you stated of the conversation talking about A.M. Best and their assessment of required capital for rapidly growing businesses. Can you remind us exactly how much of the capital penalty you are underwrite now with that business in order to sort of key determinants that will help us figure out how much capital relief will come from that change?

Robert B. Pollock

Sure. Let me just start and then I'll turn things over to Gene. Because Gene actually and Chris were part of the team that visited A.M. Best, whichever way you want to take it. But quite frankly, I think it points out the challenges we can have with the specialty business.

When A.M. Best looks and sees companies, who have premiums growing much faster than the marketplace, their natural reaction is to believe that perhaps they've got a situation where the product's under priced. I think that's the genesis of the growth charts that they've put in place. Over and above what they might normally charge. So we spent a fair amount of time trying to get A.M. Best understand why ours was different. And trust me, they don't just map their head and agreement on things [ph]. It takes a lot of dialogue.

Gene, you want to touch to the scripts on how some of that went?

Gene Mergelmeyer

I can certainly start. I mean I think as Rob explained, it is a process. And I think we were able to demonstrate first of all that the drivers of our growth were not necessary bad for our division; in fact that they were good. So we could look and we could point them to things like continued lowering of non-GAAP loss ratios continued improvement and expense ratios based on the growth that we have been receiving for also to be able to demonstrate the difference between what's really happening on a policy level basis versus what's happening on a premium level basis. And in fact that a lot of the premium that we are getting is doing to just getting better rates on the policies we are writing.

So I think we are very successful. I know that as we move into this next quarter, I think we are going to look at capital and be able to give you some further guidance particularly when we consider all the other companies involved in our best review. And I think our plans are to report further to you in the third quarter.

Chris, you want to add to that?

Christopher Pagano

Yes, just the other, I mean this is sort of part of our overall capital management philosophy, where we serve the back-end of the shift of dividends from the subsidiaries up to the holding company depending on profitability for specialty property obviously cap season is a big question mark. The good news is by the

team we are in the third quarter call, we will serve most of the way through there and have a much better sense on profitability and I can give you a much more accurate update then.

Daniel Johnson

Citadel Investment Group

So let me go back to the first part of the question, what is the premium growth penalty, that you guys paid I know you don't know how much of it will come away because you don't know what the equity will be at the end of the year, but how about what's historically you have been held in extra because of the growth?

Unidentified Company Representative

Yes well A.M. Best changes every year Dan, so its difficult to sit down... what I'd say is we feel we are going to be in the position to dividend more of our earnings than we were at last year but the specifics really relate to the inner relationship of our earnings and the formula and we just want to wait and see how that plays out a bit.

Daniel Johnson

Citadel Investment Group

Okay fair enough thank you very much.

Operator

Your next question is coming from Adam Klauber from FPK.

Unidentified Company Representative

Good morning Adam.

Adam Klauber

Fox-Pitt Kelton

Good morning thanks; two quick questions specialty property was up, gross premiums were up on a sequential basis from 40% to 30%. Is there any seasonality and also are you working on any big contracts there?

Unidentified Company Representative

Well two questions, Gene you want to address the seasonality issue first?

Gene Mergelmeyer

Yes. As far as seasonality goes, we do have some seasonality. I mean I think if you go back and looked at our historical trends particularly the fact the first quarter tends to be a bit lower, second quarter usually ends up being somewhat of a strong quarter followed typically by strong third and fourth quarters. So, the first quarter is really our, usually our sequentially lower quarter.

Adam Klauber

Fox-Pitt Kelton

Okay and also are there, are you working on any big contracts on that segment?

Unidentified Company Representative

Well, you know we've not discussed any particular but obviously Gene is regularly in RFP proposals might be out there. You can imagine that given the just general uncertainty that's taken over the marketplace I think there maybe a lot of people who aren't bidding because they could be acquired. Gene is that a fair statement?

Gene Mergelmeyer

Yes, I think it's kind of, it's certainly an interesting environment right now. And as we move forward we do believe that is going to be continued consolidation. And in the short term we could be a winner in that environment or quite frankly we could be a loser. We still believe that our large market share and our alignment with some of the industry leaders are going to provide a benefit for us over the long-term.

Adam Klauber

Fox-Pitt Kelton

And one quick follow-up question, on the health loss ratio what health inflation assumption have you built in. and what type of health inflation would you need for the health loss ratio to go over 70%?

Unidentified Company Representative

We are... we will, Assurant health is really focused on risk management and every month we go through a detailed evaluation of our emerging claims experience. We look at... we do our loss ratios every month, we break it down by product by location, by geography, by all the different factors. So we are consistently adjusting based upon our analysis of the trend. And we see trend recently been kind of stable to maybe a little bit down but each company's trend factor is very unique based upon its own book of business. We have more, higher detectable business, we have business in different locations in other companies. But generally the... I would say we are in the mid teens. But although people often make changes to their products as to rate get higher so the net to earned rate is usually somewhere about half of that rate. But it's a continuous process of adjusting.

Adam Klauber

Fox-Pitt Kelton

Okay, thanks a lot.

Operator

Your next question is coming Steven Schwartz from Raymond James.

Steven Schwartz

Raymond James

Hey, good afternoon everybody. Can you just quickly I wasn't intending to but I want to quickly follow up on Dan Johnson's question with regard to the business growth and the capital charge. Obviously you are talking about investments because they may not use the same terminology, but looking at RBC for an insurance company [ph] are we basically talking about C4 [ph] risk?

Unidentified Company Representative

No, I don't think so. I mean a couple of different points here. We also have needs to meet, be it our ratios, which is another part of the group [ph] brick we go through as we negotiate with A.M. Best.

Steven Schwartz

Raymond James

Sure.

Unidentified Company Representative

But I think the take-away is we believe we are going to be in a position to dividend a higher percentage of earnings out of the property business than we were in prior years.

Steven Schwartz

Raymond James

Okay good. And then; so if I can just go on with my own questions.

Unidentified Company Representative

Sure.

Steven Schwartz

Raymond James

For Don you mentioned State Farm, maybe I am thinking about somebody else's real estate farm but I thought State Farm was a very, very long term contract?

Don Hamm

Yes. We've had two four-year contracts with State Farm and this is a great example of an alliance that really benefits both party as I was with some of the key State Farm people earlier this week and its very clear that we have aligned interest and we have the same values as an our organization, we both focus on value to customers, we both take a long term perspective and it's very beneficial for State Farm to have access to our individual medical product that they know that the company comes through on its commitments and is there for their customer's in the time of need; and we really enjoyed working with the State Farm folks and their presence one of every four household in the United States is a tremendous advantage for us. And we are in contract discussions; we mutually agreed upon a contract extension in order to give us more time to work out the whole process, but we're very optimistic that we'll reach an agreement soon.

Steven Schwartz

Raymond James

Okay and how long was the extension and from when did it take... when did it start again so what's the [ph]?

Don Hamm

It began at the end of June and it's been extended a couple of months and we'll keep updating you as things progress, but we do, we are optimistic we'll reach an agreement soon.

Steven Schwartz

Raymond James

Okay. And than Craig on China you mentioned now it seems to be a long time ago that you've got a service office open on the insurance side though; am I understanding this right you can be in a reasonably short period of time writing extended service contract business in China?

S. Craig Lemasters

Yes, that's right, Steve, and we don't. It's not written as an insurance product there, so what we have actually opened is the service company.

Steven Schwartz

Raymond James

Okay.

S. Craig Lemasters

And so that will be a platform for the extended service contract business.

Steven Schwartz

Raymond James

Okay, are you may be, may be its too early yet, but is the thought process to deal with Chinese companies or is the thought process to initially deal with may be American companies that are doing business over there?

S. Craig Lemasters

Its really both and its interesting, even when we started researching this two years ago it does back while, we did through research to make the decision to go there and then all of our own ground work and even

in that time period the number of domestic companies that have opened in China is very encouraging and fits excellently into our core global client management strategy where we can now partner with, whether it's a large retailer, we get our insurance license a bank record company truly on a global basis and help them in the 13 locations where we are doing business today and just encouraging that a number of particularly the large retailers have entered China as well

Steven Schwartz

Raymond James

Okay. And then can you just the question of the delinquencies versus REO, my understanding was the profitability was the same. That premium was the same if the property move from a delinquency to an REO situation; the components of the combined ratio were different. But the combined ratio ultimately came out to be the same. You mentioned something I didn't know that the premium when it moves into an REO situation, it's based on the loan value?

Unidentified Company Representative

That is correct.

Steven Schwartz

Raymond James

And... okay. So that leads me to the question is, is the profitability, the absolute bottom-line profitability on a home when it moves from delinquency to REO, your profitability, does it go up? I mean I am not talking about the combined ratio. I am just talking about the bottom-line number.

Unidentified Company Representative

The bottom-line number is really going to be driven by the combined ratios, which are consistent among those products. So, I would say they are going to be comparable.

Steven Schwartz

Raymond James

Okay. Then let me try this a different way. Is the premium higher that you received on an REO relative to a delinquency?

Unidentified Company Representative

Not necessarily.

Steven Schwartz

Raymond James

Okay.

Unidentified Company Representative

Again premium... the REO premiums can often times have different factors. It is a bit of a different program. They are somewhat similar in most cases, but they can differ.

Steven Schwartz

Raymond James

Okay, all right; fair enough. And then just looking at employee benefits, just so I understand this loss ratio is less favorable than a year ago, but morbidity was still better than pricing; is that correct?

Unidentified Company Representative

We... it's still favorable. I mean the... versus pricing you've got a lot of different factors by products and different durations and things like that. But I think overall as I said, the disability incidents rate still remains at level that we are very comfortable with.

Steven Schwartz

Raymond James

Okay, all right; great. Thanks, guys.

Unidentified Company Representative

Thank you.

Operator

Your next question is coming from William Wiltz of Morgan Stanley.

Robert B. Pollock

Good morning Bill.

William Wiltz

Morgan Stanley

Hi there. Thanks very much. I'll just keep it to one topic given the time for Craig. Have you seen the change in the penetration rate on domestic warranties, consumer electronics, or other durable goods over the last several quarters as a result of the economic weakness, I guess is my question.

S. Craig Lemasters

We see both going on though we have clients that we've talked about. Obviously Circuit has been very public about their challenges. We've seen clients that are struggling in the economy, but we also have clients in our service contract side, where we have seen increases in penetration and typically the ones that are really engaged in our strategic program management and know we can really help them. We've also seen in selected clients kind of the high end sales with flat panels and things that held up very strong. And so that's been encouraging. And then in our specialty line, some of the things we talked about the specialty auto pieces for example, we've seen encouraging signs there. And I think that's really sort help us, this whole motion of taking this challenging economy had on, this has really helped us to balance that in this economy.

William Wiltz

Morgan Stanley

Okay. Thanks for that and related to their meaningful difference between the international penetration rate and domestic U.S., just directionally?

S. Craig Lemasters

No, I wouldn't call it meaningful. At this point, it's just a big range internationally, because in some countries, we're really just early on introducing the whole concept of service contract and there's others that are somewhat more mature that tend to behave very much like the U.S. So it's a bit of a mix bag.

William Wiltz

Morgan Stanley

Okay, thanks very much.

Operator

Our last question is coming from John Hall from Wachovia.

Robert B. Pollock

Good morning, John.

John Hall

Wachovia Securities

Good morning, Rob. I'm going to take another crack at the specialty property capital.

Unidentified Company Representative

Okay.

John Hall

Wachovia Securities

What percentage of earnings did you dividend out last year?

Unidentified Company Representative

I don't think the dividend any last year, because we grew so rapidly.

John Hall

Wachovia Securities

So... okay, so 0% that you were essentially prevented on the part of over some capital needs.

Unidentified Company Representative

Well, again the big high ratio is the combination of the factors that include something related to the business and something related to your growth. And that combination put us in a situation of retaining capital within the business.

Chris, you want to talk about that a bit more?

Christopher Pagano

Let me just take another shot at this and hopefully prior questions about if people are still listening. The capital charge related to growth is a function of individual companies' growth relative to the industry. So you've got a couple of moving parts there. There is a three year and a one year number that AFS looked at. The dialogue that we had with them and where we were able to come to an agreement was how to measure the growth in the property side. The fact that premium was not necessary... growth in premium was not necessarily an indicator of growth and risk, so that measuring our growth over that one and three year time period ought to be done on somewhat different basis.

So that's where we were able to reach some sort of understanding in agreement with AFS. They are still on a process of determining the actual numbers relative to the industry. So that's why we can't give you more specifics on that. And again the other issue being we are heading into hurricane season. Our policy is typically to back-end load any kind of dividends in particular out of the property area that will be much... be able to give you much better answer on the third quarter call.

Unidentified Company Representative

And the last issue with all those, remember, is that that is a statutory entity basis, and not all of our statutory entities are just aligned with one of our businesses. And so it makes all this a bit more complicated.

John Hall

Wachovia Securities

Understood. But the 170 to 230 that was available... that number that we talked about relied on essentially a 0% contribution from specialty property?

Unidentified Company Representative

Well, we actually thought we were going to get some from the property last year, and we got it from other places.

John Hall

Wachovia Securities

Okay. And then just a final close out question: as far as market share in specialty property, any changes that you can talk about in the quarter?

Unidentified Company Representative

Actually it remained relatively... well, it remained very consistent from the quarter. Our loan counts were about 30.5 million, which was consistent with the last quarter; even our spread between prime and subprime at 83% to 17%. Like we said before, it's somewhat of a volatile market out there, so we may win some, and actually did. We lost a couple; we gained a couple during the quarter. But we remained relatively consistent. And we still feel good that our overall market share is going to set us well for long-term growth.

John Hall

Wachovia Securities

Great, thanks very much.

Operator

At this time, I would now like to turn the floor back over to Rob for any closing remarks.

Robert B. Pollock

We are very pleased with the results we produced for shareholders so far this year, and facing a challenging economy head on. We thank you for joining us today and look forward to updating you on our progress.

Operator

This does conclude Assurant's second quarter call. You may now disconnect.

Copyright © 2018 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2018 S&P Global Market Intelligence.