S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

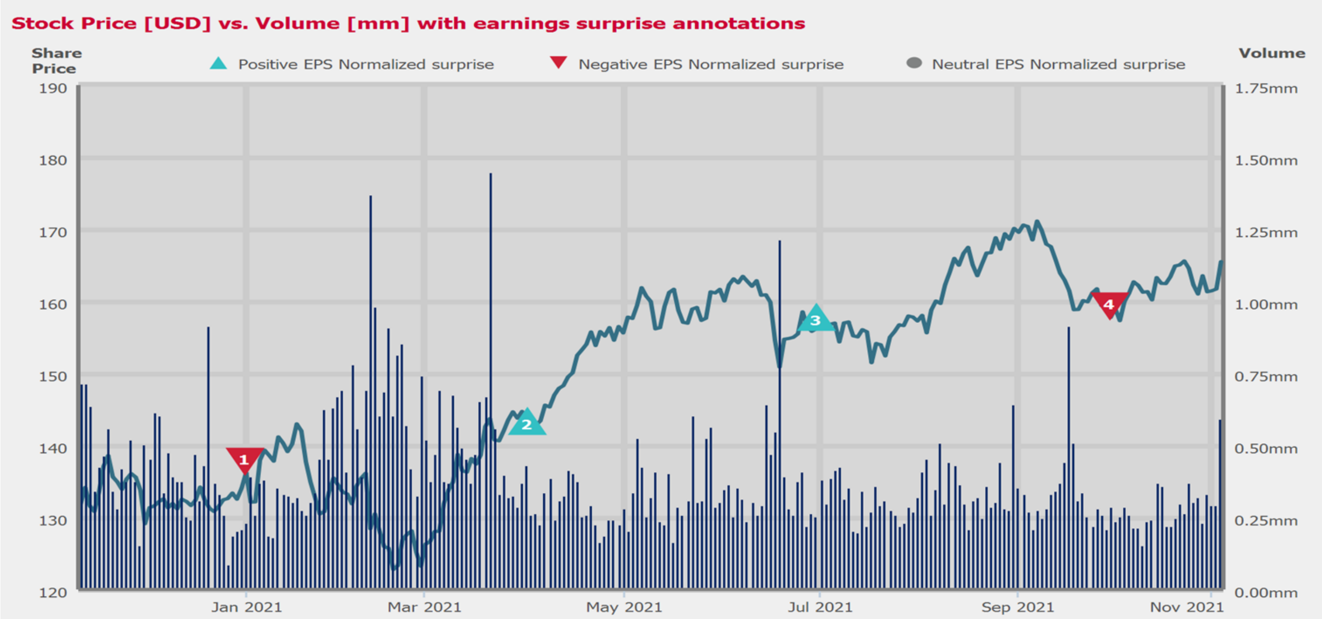
FQ3 2021 Earnings Call Transcripts

Wednesday, November 03, 2021 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.42	1.41	▼(0.70 %)	2.28	9.15	NA
Revenue (mm)	2496.70	2637.80	▲5.65	2563.31	10176.11	NA

Currency: USD
Consensus as of Nov-03-2021 8:11 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	2.08	1.82	▼1 (12.50 %)
FQ1 2021	1.94	2.47	▲2 27.32 %
FQ2 2021	2.50	2.99	▲3 19.60 %
FQ3 2021	1.42	1.41	▼4 (0.70 %)

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Call Participants

EXECUTIVES

Alan Colberg

Keith Warner Demmings
President, CEO & Director

Richard Steven Dziadzio
Executive VP & CFO

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Thomas Henry Shimp
Piper Sandler & Co., Research Division

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Welcome to Assurant's Third Quarter 2021 Conference Call and Webcast. [Operator Instructions]

It is now my pleasure to turn the floor over to Suzanne Shepherd, Senior Vice President of Investor Relations and Sustainability. You may begin.

Suzanne Shepherd
Senior Vice President of Investor Relations & Sustainability

Thank you, operator, and good morning, everyone. We look forward to discussing our third quarter 2021 results with you today. Joining me for Assurant's conference call are Alan Colberg, our Chief Executive Officer; Keith Demmings, our President; and Richard Dziadzio, our Chief Financial Officer.

Yesterday, after the market closed, we issued a news release announcing our results for the third quarter 2021. The release and corresponding financial supplement are available on assurant.com. We'll start today's call with remarks from Alan, Keith 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 detail on these measures, the most comparable GAAP measures and a reconciliation of the 2, please refer to yesterday's news release and financial supplement.

I will now turn the call over to Alan.

Alan Colberg

Thanks, Suzanne. Good morning, everyone. Our third quarter results were strong, driven by double-digit operating earnings growth in Global Lifestyle. The strength of our Global Automotive and Connected Living offerings continue to validate our long-term strategy of focusing on our higher growth, fee-based and capital-light businesses. We continue to make progress in building a more sustainable company for all stakeholders.

During the quarter, a few key highlights included: for the first time, Assurant was awarded a bronze accreditation by EcoVadis, one of the largest sustainability ratings companies, making Assurant among the top 50% of all 75,000 participating companies. In addition, this quarter, we provided additional transparency to track our progress on our journey to build a more diverse and inclusive Assurant with the recent disclosure of our EEO-1 report, which provides gender, race and ethnicity data by job category for our U.S.-based employees. We believe a diverse and inclusive workforce will best foster innovation, a key ingredient to sustaining our outperformance longer term.

Looking at our financial performance. Year-to-date, net operating income per share excluding reportable catastrophes was $8.75, up 12% compared to the first 9 months of last year. Net operating income and adjusted EBITDA also excluding cats both increased by 10% to $528 million and $862 million, respectively. These results support our full year outlook of 10% to 14% growth in net operating income per share excluding reportable catastrophes, marking our fifth consecutive year of strong profitable growth. Given year-to-date results and our expectations for the fourth quarter, we would expect to end the year closer to the top half of this range.

We've also now completed our 3-year $1.35 billion capital return objective from our 2019 Investor Day, a quarter ahead of schedule. Following the close on the sale of Global Preneed in August, we've also made meaningful progress in returning an additional $900 million to shareholders. Our 2021 EPS outlook is driven by at least high single-digit net operating income growth excluding cats as well as share repurchases.

Turning to our business performance. In Global Lifestyle, we are on track to grow adjusted EBITDA by double digits in 2021 from $637 million in 2020, driven by Global Automotive and Connected Living. We have benefited from the stable recurring revenue stream of our installed base of mobile subscribers and our success in launching additional offerings and capabilities for our mobile carrier, cable operator, OEM and retail clients globally. Additionally, our mobile trade-in and upgrade business and expanded service delivery options are increasingly important to our profitability and also in providing a differentiated and superior customer experience.

Within Global Automotive, we benefited from increased scale, growing the number of vehicles we protect by 20% to over 52 million since The Warranty Group acquisition in 2018. We believe auto will continue to be one of our key growth businesses in the future.

In Global Housing, we continue to be on track for another year of better-than-market returns, with an annualized operating ROE of nearly 15% for the first 9 months of this year. This includes $113 million of catastrophe losses, which further demonstrates the superior returns of this differentiated business. Our countercyclical lender-placed insurance business remains an integral part of the mortgage industry framework in the U.S. Within lender-placed, as we renew existing clients and add new partners, we will continue to enhance the experience through the ongoing rollout of our single-source processing platform.

Our multifamily housing business now supports over 2.5 million renters across the U.S. and has more than doubled earnings since 2015 through our strong partnerships with our affinity and property management company clients. Our investments in digital capabilities such as our Cover360 property management solution continues to drive more value for our partners and an enhanced customer experience. Overall, we believe our portfolio of high-growth, fee-based, capital-light offerings and high-return specialty P&C businesses sets us apart as a long-term outperformer and sustained value creator for our shareholders.

With my retirement at year-end, I wanted to take this opportunity to thank all of our stakeholders that have supported Assurant's strategic vision and path over the last 7 years. Most of all, I'm humbled by our 15,000 employees, who through their dedication to serve our clients and our 300 million customers worldwide have successfully transformed Assurant. Together, we have significantly strengthened our Fortune 300 company that should continue to deliver above-market growth and superior cash flow. With our President, Keith Demmings, succeeding me as CEO in January, I'm confident Assurant will accelerate our strategy and continue to differentiate our superior customer experience while further deepening client relationships.

I'll now turn the call over to Keith to review our key business highlights in greater detail for the quarter. Keith?

Keith Warner Demmings
President, CEO & Director

Thank you, Alan, and good morning, everyone. On behalf of our employees, I wanted to express our sincere thanks to Alan for his leadership as CEO. I've been fortunate to have had a front row seat and a role in supporting Alan's vision and the transformation of Assurant.

Importantly, he has continued to evolve the purpose of our company to drive value for all stakeholders: customers, employees, communities and shareholders. The impact he's had on our people and the overall culture of our company has been exemplary, and I appreciate Alan's personal mentorship and partnership and wish him the very best in his retirement. As we build on Assurant's momentum over the long term, I believe our talent and innovation will be critical factors to achieving success and growth, especially as we focus more on the convergence around the connected consumer.

From a talent perspective, Assurant has developed a deep and diverse bench of internal leaders. A few weeks ago, I announced our refreshed management committee effective in January, including 2 new leadership appointments illustrating our strong bench. First, Keith Meier, our current President of International, will succeed Gene Mergelmeyer as Chief Operating Officer as Gene will be retiring at year-end. Gene's significant contributions to Assurant over the last 30-plus years, including as COO over his last 5 years, have been instrumental in creating market-leading positions, producing profitable growth and transforming the organization.

In succeeding Gene, Keith Meier brings nearly 25 years of experience at Assurant to the COO role. Since 2016, as President of Assurant International, he has driven growth across our global markets, most recently with strong success in Asia Pacific. In this new role, Keith will be focused on advancing Assurant's business strategy and market leadership positions as well as identifying additional opportunities to deliver a superior customer experience.

Second, Martin Jenns will become President of Global Automotive. With over 30 years of experience, he currently leads the transformation and growth strategy for auto and has been instrumental in our introduction of innovative new products, like EV One, our electric vehicle warranty protection. In addition to emerging opportunities and innovation, Martin will be focused on driving growth and improving the customer experience, including working with our partners to deliver best-in-class dealer training. These 2 new appointments, along with recent appointments of Biju Nair as President of Connected Living and Manny Becerra as our Chief Innovation Officer as well as the other management committee members, represent a strong team to help lead us into the future.

In addition to talent, innovation is an important strength of the organization, not only the development of new digital products and offerings for our clients but also through new paths to grow and scale Assurant's businesses. Within Connected Living, innovation was a significant theme this quarter through ongoing enhancements of our mobile service delivery options. As part of the recently finalized multiyear contract extension with T-Mobile, we're expanding the services Assurant provides to continuously improve the customer experience for millions of T-Mobile customers. As of November 1, Assurant is partnering with T-Mobile to begin the nationwide rollout of in-store device repair services to approximately 500 stores provided by Assurant's industry-certified repair experts.

In addition, we have also transitioned all of the legacy Sprint protection subscribers to the new T-Mobile device protection offering. As a result, this significantly adds to our mobile device count, now at roughly 63 million as of November 1. Overall, the expansion of our service delivery options is critical to sustaining our competitive advantage.

We also recently signed a multiyear renewal with Spectrum Mobile, continuing to provide a comprehensive device protection program, which includes trade-in, premium tech support and Pocket Geek Mobile, Assurant's on-device diagnostic tool. With the renewal, we will also be expanding the offering to include Pocket Geek Privacy, which enables consumers to better protect and manage their personal information online through various features. This is another example of how we're able to grow by adding services and capabilities to existing clients.

In addition, the mobile business continues to see strong attachment rates given the increased reliance on mobile devices as well as rising device prices. Our fee-driven trade-in and upgrade business, including the previous acquisitions of HYLA and Alegre, have performed extraordinarily well already this year as we enter the early innings of the 5G upgrade cycle. In fact, almost a year after the transaction of HYLA closed, I am happy to report the acquisition has performed better than expected, ahead of the low-teens forward EBITDA the acquisition was valued on.

With the growing availability and popularity of 5G-enabled smartphones, we expect to see our 30-plus trade-in and upgrade programs continue to grow. Our progress is demonstrated through our ability to manage large-scale programs with superior technology. This is further supported by increasing our attach rates for trade-in programs as our clients' promotional efforts encourage consumers to upgrade. Overall, we have processed nearly 18 million devices so far this year, reducing e-waste and increasing digital access with high-quality affordable phones. Through the scale and capabilities of our trade-in and upgrade programs, we benefit from an additional source of profit and improved client economics and customer retention.

This quarter, we are pleased to announce that we have signed a multiyear contract extension with AT&T to manage their device trade-in program. This includes providing analytics as well as device collection and processing for all of their sales channels, including retail, B2B, dealer and direct to consumer. AT&T was a key client added with the HYLA acquisition, and we look forward to continuing to do business with them, specifically as we help support the growing adoption of 5G-enabled devices.

In Global Automotive, policies increased by 4 million or 8% year-over-year and production is well above pre-pandemic levels as we continue to take advantage of our scale and talent. So far this year, the business has also benefited from strong used car growth, which tends to earn faster than new car sales. This, along with the fact that earnings from the business are recognized over a multiyear period, provides good visibility into future performance of the business.

As we drive innovation within auto, we continued the global rollout of EV One, an electric vehicle and hybrid protection product to North America. EV One has now been rolled out in 7 countries. While the electric vehicle market is still in its infancy, our EV One product will allow Assurant an opportunity to better evaluate customer demand and leverage our learnings to position us well for the expected increase in electric vehicle adoption in the future.

Our multifamily housing business grew policies by 7% year-over-year from growth in our affinity partners as well as our PMC relationships where we continue the rollout of our innovative Cover360 product. In addition, we have seen other digital investments create opportunities for future growth. Our newly designed digital sales portal, which makes it faster and easier for residents to sign up for a policy, is driving significantly higher product attachment rates. Our new portal has seen an increase in conversion rates versus our legacy website since it was first introduced last year.

In summary, our ability to strengthen Assurant's talent and innovation, supported by critical investments, has and should continue to drive momentum for the future. I will now turn the call over to Richard to review the third quarter results and our 2021 outlook. Richard?

Richard Steven Dziadzio
Executive VP & CFO

Thank you, Keith, and good morning, everyone. As Alan noted, we are pleased with our third quarter performance as our results reflect strong growth across Global Lifestyle and solid earnings in Global Housing. For the quarter, we reported net operating income per share excluding reportable catastrophes of $2.73, up 5% from the prior year period. Excluding cats, net operating income and adjusted EBITDA for the quarter each increased 4% to $162 million and $262 million, respectively.

Now let's move to segment results, starting with Global Lifestyle. The segment reported net operating income of $124 million in the third quarter, a year-over-year increase of 16%. Growth was driven by Global Automotive and continued earnings expansion within Connected Living's mobile business.

In Global Automotive, earnings increased $8 million or 21% from continued Global growth in our U.S. national dealer and third-party administrator channels, including contributions from our AFAS and international OEM channels. Better loss experience in select ancillary products and higher investment income also supported earnings growth in the quarter.

Connected Living earnings increased by $6 million or 9% year-over-year. The increase was primarily driven by continued mobile subscriber growth in North America and better performance in Asia Pacific as well as higher trade-in volumes, led by contributions from our HYLA acquisition and carrier promotions. This quarter, Global Automotive and Connected Living results also included a modest onetime tax benefit that improved earnings.

For the quarter, lifestyle's adjusted EBITDA increased 17% to $177 million. This reflects the segment's increased amortization resulting from higher deal-related intangibles for more recent transactions in mobile and Global Automotive. IT depreciation expense also increased, stemming from higher investments.

As we look at revenues, lifestyle revenues increased by $158 million or 9%. This was driven mainly by continued growth in Connected Living and Global Automotive. Within Connected Living, revenue increased 10%, boosted by mobile fee income that was driven by strong trade-in volumes, including contributions from HYLA. Trade-in volumes were supported by new phone introductions and carrier promotions from the introduction of new 5G devices.

Higher revenue from growth in domestic mobile subscribers was offset by declines in run-off mobile programs. Mobile subscribers were up slightly year-over-year and flat year-to-date as mid-single-digit subscriber growth in North America was offset by declines in other geographies, mostly due to 3 factors: first, the 750,000 subscribers related to a run-off European banking program previously mentioned, which is not expected to be a significant impact in our profitability; second, subscriber growth for existing programs moderating in Asia Pacific; and third, a slower-than-expected recovery from the pandemic in Latin America.

In Global Automotive, revenue increased 8%, reflecting strong prior period sales of vehicle service contracts. Industry auto sales remained elevated in the third quarter, and we benefited from this trend as reflected in the year-over-year growth of our net written premium by 12%. We have though seen this trend begin to normalize beginning into the fourth quarter.

For the full year, Lifestyle revenues are expected to increase modestly compared to last year's $7.3 billion, mainly driven by global auto and Connected Living growth. For all of 2021, we still expect Global Lifestyle's net operating income to grow in the high single digits compared to 2020. Adjusted EBITDA for this segment is expected to grow double digits year-over-year, which continues to grow at a faster pace than segment net operating income.

As previously reported, we began our investment in the T-MO in-store repair capability this quarter. However, due to the timing of the rollout, most of our associated start-up costs will occur in the fourth quarter. These costs primarily relate to technician hiring and parts sourcing. We do expect these costs to meaningfully impact Connected Living's profitability as we end the year. In addition, we expect our effective tax rate to return to a more normal level, approximately 23%. Looking ahead to 2022, we expect earnings expansion to continue but more likely at more moderated levels as we continue to invest for growth, including additional implementation start-up costs for in-store service and repair.

Moving to Global Housing. Net operating income excluding catastrophe losses was $81 million for the third quarter. Including the $78 million of preannounced catastrophe losses, mainly from Hurricane Ida, net operating income totaled $3 million. Excluding catastrophe losses, earnings decreased $19 million due to anticipated higher non-cat losses, which returned to levels more in line with historical averages. As a reminder, favorable non-cat losses in 2020 were not representative of historical trends, and third quarter 2020 marked the lowest point of last year, mainly driven by loss experience within lender-placed and specialty products.

The year-over-year earnings decline was nearly all driven by unfavorable non-cat loss experience from several factors. The largest driver, which contributed close to half of the increase, was from the expected normalization of the non-cat loss ratio. The balance of the decline was split relatively evenly between increased reserves related to our specialty P&C offerings, primarily in our on-demand sharing economy business, as well as higher claims severity.

Claims severity included moderate impacts from inflationary factors such as higher labor and material costs. While there is always a lag, if this trend continues, we would expect higher loss costs to be offset by increased rates over time.

In multifamily housing, underlying growth was offset by increased investments to further strengthen our customer experience, including our digital-first capability. Global Housing revenue decreased slightly year-over-year from lower specialty P&C revenues as well as a cat reinstatement premium resulting from Hurricane Ida and lower REO volumes in lender-placed. This was partially offset by higher average insured values and premium rates in lender-placed and growth in multifamily housing.

We continued to expect Global Housing's net operating income excluding cats to be flat for the full year compared to 2020. For the fourth quarter and into 2022, we would expect non-cat losses to continue to be above 2020 but in line with year-to-date 2021 experience, which is consistent with long-term trends. We also continued to monitor the REO foreclosure moratoriums and any additional extensions that may be announced.

At Corporate, the net operating loss was $21 million, an improvement of $4 million compared to the third quarter of 2020. This was driven by 2 items: first, lower employee-related expenses and third-party fees; and second, expense savings associated with reducing our real estate footprint. In the fourth quarter, we do anticipate a higher loss due to the timing of spend.

For the full year 2021, we now expect the Corporate net operating loss to be approximately $80 million, driven by favorable year-to-date results, mainly from the onetime tax and real estate joint venture benefit in the second quarter. This compares to our previous estimate of $85 million. As we look forward to 2022, we would expect our net operating loss in Corporate to be closer to $90 million, more in line with historical trends.

Turning to the holding company liquidity. Including the net proceeds from the sale of Preneed in August, we ended the third quarter with over $1.3 billion, well above our current minimum target level. In the third quarter, dividends from operating segments totaled $127 million.

In addition to our quarterly corporate and interest expenses, we also had outflows from 3 main items: $323 million of share repurchases, $39 million in common stock dividends and $11 million mainly related to Assurant Ventures investments. In addition to completing our 2019 Investor Day objective of returning $1.35 billion to shareholders from 2019 through 2021, we have also completed roughly 1/4 of our objective to return $900 million in Global Preneed sale proceeds through share repurchases. For the year overall, we continue to expect dividends to approximate segment earnings, subject to the growth of the businesses, rating agency and regulatory capital requirements and investment portfolio performance.

I also want to provide a quick update on Assurant Ventures, our venture capital arm. In the third quarter, 3 investments in our portfolio went public via SPACs. We are pleased with the results as the 3 investments exceeded a 7x multiple on investment capital under their respective SPAC transaction terms. These transactions combined with strong performance in the broader ventures portfolio led to a $75 million after-tax gain flowing through net income in the quarter. In addition to strong returns, these investments also provide key insights into emerging technologies and capabilities within our connected consumer businesses.

Before turning to Q&A, I too would like to take a minute to thank Alan for his partnership over the last 5 years. In addition to positioning Assurant for long-term success and growth, he's created an environment of inclusion and community, truly

representative of our core values: common sense and common decency. Alan, I wish you all the very best in retirement. Well deserved.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is coming from Tommy McJoynt with KBW.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

So the transfer of Sprint subscribers that you mentioned increased your covered devices by about 20%. Could you talk about the revenue potential per device and just kind of the bottom line profitability for those new devices relative to your 53 million in-force devices at quarter end?

Keith Warner Demmings
President, CEO & Director

Sure. Maybe I'll take that. And back up for just a second. So first thing I'd emphasize is just the strong partnership that we've had with T-Mobile for many years, which has obviously scaled significantly over time. So we're extremely pleased to have reached a multiyear extension. And then the migration of the Sprint customers on November 1 along with the ramping of same-unit repair inside of 500 T-Mobile stores is obviously very exciting as we look to the future.

As we've discussed on previous calls, it's not uncommon for us to forgo economics when we re-contract with major clients. That's particularly true if a client scales dramatically over time, which obviously is the case with T-Mobile. As a result of the new agreement going forward, we do expect lower per-unit economics. But I would say that once we get same-unit repair fully ramped and normalize our performance, which will take some time, we do expect overall to be able to more than offset the margin pressure with the additional Sprint volume with economies of scale within the business and obviously, with the addition of the additional in-store repair services.

And we're really well positioned as partners as we look to continue to drive customer experiences and innovation for the future. So overall, a really strategically important accomplishment for us, not just the renewal, but launching same-unit repair, I think, is critical as we look to accelerate our competitive advantage in the Connected Living business, and this positions us really well.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Great. And then switching gears a little bit. With the 2019 to 2021 capital plan, you laid out the general target for capital allocation of 25% reinvestment, 25% dividends and 50% share repurchases. Has anything fundamentally changed that should lead us to expect anything different kind of going forward? Perhaps getting a sneak peek of the next 3 years.

Keith Warner Demmings
President, CEO & Director

No, it's a great question. And we're obviously planning an Investor Day in March of next year. So we'll talk more about our long-term vision for the company and our capital management philosophy at that point in more detail. But I would emphasize our goal, as it has been, is to deliver long-term profitable growth to increase our market-leading positions and really focus on long-term value creation for our investors. And we intend to maintain a disciplined capital management philosophy, but also looking to invest in growth organically and certainly somewhat inorganic as well. But we'll come back in Investor Day and share a broader vision around the future.

Alan Colberg

Yes. And this is Alan. The one thing I would add to Keith's comments, if you think about our company, we've always had a great business that generates earnings at the business level that we can then upstream to the holding company. And going back since our IPO, we've been very strong stewards of the company's capital over the last 20 years. I think that's going to continue fully under Keith's leadership as we go forward. I don't see any major changes in the ability to generate cash and then to manage it appropriately for shareholders.

Keith Warner Demmings

President, CEO & Director

Yes. And we do remain committed to returning the balance of the $900 million from Preneed that we've talked about previously. So we intend for that to continue as planned and get that done within 12 months of the close of the Preneed transaction as well.

Operator

Our next question is coming from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I also had a question on the covered devices. I mean you -- we've had a period of a couple of years where it's been flattish in covered devices, and you explained that on your prepared remarks. Now we've got, essentially in 1 month, this 20% jump or so, and I'm just trying to think through how that might roll forward. If we're -- are we getting an unusual share of it in this first step of the rollout? Or -- I don't know. Can you give us any color of how that might unfold going over the next -- the rest of this year and into next year?

Keith Warner Demmings
President, CEO & Director

Yes. So we've migrated all of the Sprint customers effective November 1, so all of that volume is now enrolled in Assurant's program going forward. Obviously, we'll continue to see growth through the overall partnership as T-Mobile continues to win new customers in the marketplace and continues to add insurance to those customers' accounts. So this does create a really interesting long-term opportunity for growth.

And as we've demonstrated over many years, we continue to innovate not just around the products but services, capabilities, how can we invest more around delivering exceptional customer experience. And certainly, a partnership with T-Mobile that is now significantly more scaled, we believe, is going to yield more opportunities to partner together for the future. But as we've talked about, there's a trade in terms of economics between what's our per-unit fee that we're going to get relative to a much larger base of customers.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Right. Okay. And is there any remaining drag from the other things you mentioned internationally where things were running off or not growing as much?

Keith Warner Demmings
President, CEO & Director

No. I think we've seen a little bit of a slowdown in growth, if we're talking specifically about mobile, just as we've come out of COVID in a couple of regions, primarily Latin America, a little bit in Europe as things have opened back up. But overall, really, really strong performance in the U.S. market and the Japanese market and really do see good long-term growth for that business overall in international as we continue to scale over time.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. And then the other count statistic you give is the autos covered in the Global Automotive, and that was growing very well. And again, trying to think through how that might continue forward. Is there anything that has momentum there that we might expect to see additional growth in those numbers going forward?

Keith Warner Demmings
President, CEO & Director

Yes. I would say that the overall industry sales on the auto side remain quite elevated. As you saw, our covered policies increased a lot, 4 million and 8% from last year. But I would also highlight sales production was well above pre-pandemic levels. So we're seeing really, really strong performance. We achieved almost $1.2 billion of net written premium when you look at the quarterly results.

I would say that began to normalize a little bit from where we were in the first and second quarter. But it was only modestly down from Q2, up 12% over 2020 and actually up 27% over 2019. So that, we'd certainly expect to taper off going forward. There's obviously constraints around supply chain that's affecting new car sales, but those constraints have been more than offset by the volume that our clients are doing on the used side of the business, which has been very dramatic and overall leading to elevated levels of sales.

Gary Kent Ransom
Dowling & Partners Securities, LLC

If I could squeeze in a couple of numbers questions. There were a couple of items that were mentioned that you didn't really quantify, the tax benefit that helped the numbers in Global Lifestyle. And you also mentioned in housing the reinstatement premium. Are those -- can you help quantify those at all?

Richard Steven Dziadzio
Executive VP & CFO

Sure. Gary, it's Richard. Yes. I mean in terms of the tax benefit, it was about $4 million. And then the reinsurance -- the reinstatement premium, I think that was about $7 million exactly.

Gary Kent Ransom
Dowling & Partners Securities, LLC

And just to be clear, the $99 million of pretax cats does not include that reinstatement premium, correct?

Richard Steven Dziadzio
Executive VP & CFO

The -- in terms of the reinstatement premium, no, it actually does. And if you look at the numbers, we have a retention of $80 million, and the total cat impact for us in the quarter was $87 million. So that comes through on that for either.

Operator

Our next question is from Tom Shimp from Piper Sandler.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

So I'm thinking about the rollout of your EV One product, the corresponding transition to the electric vehicle. How do the attachment rates compare for this product compared to the internal combustion engine? There's a lot of -- there's a good amount of tech in those EV cars but they do have less moving parts. So how do those dynamics affect the attachment rates that you're seeing?

Keith Warner Demmings
President, CEO & Director

It's a great question. It's -- I would say it's really early in terms of scaling around electric vehicles in terms of the service contract programs. You're correct, there are less moving parts. There's a lot of technology. Some of the parts tend to be very expensive to get repaired so we may see lower frequency, we may see higher severities. There's also a little less certainty in the minds of consumers around the reliability of all of the technology.

So we do expect to see strong performance over time. I would say it's really early. And it will evolve as we start to see more and more EVs in the market and as we start to see our clients maturing around not just selling electric vehicles but attaching F&I products and services. So this will evolve, I think, over the next few years quite dramatically.

Thomas Henry Shimp
Piper Sandler & Co., Research Division

Okay. So inflation, it's top of mind for insurance investors right now. Assurant operates in businesses that have attracted more attention in regard to inflation, parts and labor costs in automotive, chip shortages in mobile and Global Housing. Housing is a risk-based business where you have inflation exposure that you can mitigate with rate. But I think a lot of investors who look at Assurant are your typical insurance investor and sometimes misunderstand the extent of which the risk in mobile and automotive is ceded off to clients and how it operates on a fee-like basis.

So I think investors understand this dynamic exists but not the degree of which. So maybe you can give us your thoughts there on how Assurant is positioned in an increasingly inflationary environment.

Keith Warner Demmings
President, CEO & Director

Yes. And maybe I'll offer a couple of comments, and then I'll ask Richard because his team has done a lot of work on this question. But I think you're right. I mean we think our risk is quite well insulated and mitigated based on the deal structures that we have. On the lifestyle side, most of the deals are reinsured or profit shared, not all of the deals, but we've been pretty insulated in terms of seeing volatility there. And then obviously, as we look at housing, as you talked about, there are opportunities with rate increases, increasing insured values. And then investment income will obviously be a big driver as we go forward.

Richard's done a full analysis to kind of look at the net overall. So maybe talk about that, Richard.

Richard Steven Dziadzio
Executive VP & CFO

Sure. Thanks, Keith. And I think you sort of [hit] it on the main points. When we look at it, I would say, short term in this quarter, we mentioned that severities were up a little bit, probably 1/4 of the whole change in the non-cat loss ratio. Those severities are really labor and claims costs increasing there.

But over the long term, I think we're -- we look at it maybe being slightly positive, at least neutral. Because what happens -- I mean Keith mentioned the reinsurance that we have with our clients on the fee-based side, so there's a large sharing of profitability on that side of the business. But then on the P&C side, where -- housing, whatever, where we are taking on the claims and the risk, there's 2 things that would happen.

Lender-placed, we have -- average insured values would go up. So as the prices of housing go up with inflation, we would see an increase in our -- in the premiums to the average insured value. Also, over time, we would be able to recover a large part, if not all, of that through our rate filings. So we feel that obviously insulates us quite well.

And then finally with inflation, over time, we would anticipate that interest rates would increase and we would get an uptick in our investment income. So overall, we're not looking at it as being any type of a significant negative. If anything, it's neutral, could be a small positive.

Operator

Our next question is coming from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

So just curious. In Global Housing, I know early on we were thinking maybe we'd see an increase in placement rates towards the end of this year. Obviously, forbearance kind of hurt that. Now that that's gone, what is your kind of views with respect to placement rates there? Are we ever going to see a pickup?

Keith Warner Demmings
President, CEO & Director

Yes. I think we signaled a modest change in placement rate this quarter, mainly driven by the mix. So I'd say it's broadly flat. I would expect, as we look to maybe the back half of '22, we'd start to see an increase modestly in the placement rates over time. I expect servicers to actively work with borrowers on loan modifications to keep the loans performing.

There's so much strength generally in the housing market. Customers have positive equity in the home. So I think a lot of that activity will delay some of the placement rate from flowing through. And certainly, same thing is true on the foreclosure side as well that will affect the REO business. So probably second half of '22 would be our best estimate on when we might start to see that coming through the portfolio.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then second question, just curious, the reserve increases that you have within the quarter, what was that related to in the specialty P&C?

Alan Colberg

Yes. This is Alan. Maybe let me take that one and give a little bit of history on what we're doing there. So in specialty, we have a variety of products, things like antique auto, a little bit of the international property we write. And we also, a few years ago, started to do a couple of on-demand products related to really following the consumer as they own and rent their home and their car and trying to really build off of our experience in rental and the franchise that we have there. And what we're really doing today is we're insuring a short-term transaction, so think about you're renting your home or you're using your car to make a food delivery.

And what we're excited about with that business, and then I'll answer the question directly, both -- it's a new distribution channel for us. If you think about we can embed some of our capabilities around rental into a rental of a home. And then what's particularly interesting is the gig economy. And if you think about the workers who are now delivering food or using their car to provide services, it's an interesting opportunity for us to drive not that product as much as our other products, our service contracts, our mobile capabilities, our renter's insurance. So that's really been the genesis of what we're doing there.

In terms of the reserve this quarter, it's affecting really maybe, what, $5 million, I think was the amount. And it's really development on prior reported claims. So think of it as the catch-up to align with all of our future expectations. And then over the last couple of years, as we've gained experience in this business, we've been modifying our product structures. We've increased rates, and we've put in place extensive reinsurance. So we'll never -- we don't anticipate having any significant or material losses from this business. And in fact, it's been a very well-performing business for us over the last couple of years.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And I assume you've got a lot of reinsurance on it -- protections on it.

Alan Colberg

We do, we do. We've got very strong structures there. And it's really -- for us, we're trying to do the same thing we do in auto and mobile generally, which is make it into an administration and fee business as we manage around a consumer transaction.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my last one, I was just curious. So I take a look at the Global Lifestyle. There's a lot of moving parts happening here, I guess, going into the fourth quarter when I think about kind of the pretax margin on that business and obviously, the additional subs coming in at a lower kind of revenue per sub. And then you've got the investment coming in. I mean should we think about kind of margins in that business declining here as we look into fourth quarter and 2022?

Keith Warner Demmings
President, CEO & Director

I think as we look at overall profits in lifestyle and in Connected Living, we do expect to see growth in Q4 over Q4 last year and continue to see growth into 2021. We had, as you saw, a strong third quarter for Connected Living, up significantly over last year. So I think that continues in Q4 even with the additional investments that we need to make to really not just stand up same-unit repair but make sure that we're executing and delivering to a really high standard. And then as we think about 2022, yes, we expect overall we'll see some moderation, but we still expect to see strong growth across both the lifestyle and housing businesses.

Brian Robert Meredith
UBS Investment Bank, Research Division

So good solid operating income growth still. It's just maybe some pressure on margins but the top line growth will more than offset that is what I think I hear you saying, right?

Keith Warner Demmings
President, CEO & Director

Correct. Yes, yes. The per-unit economics are going to look a little lighter, but the overall economics are going to be strong.

Brian Robert Meredith
UBS Investment Bank, Research Division

Terrific. All the best in your retirement, Alan.

Alan Colberg

Thank you.

Operator

Our next question is coming from Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess Richard, when you talked about the impact in the fourth quarter from the rollout expenses from T-Mobile, I guess, A, can -- any way you can help us quantify that meaningful impact? And then B, is it just 4Q? Will any of that extend into 1Q next year?

Richard Steven Dziadzio
Executive VP & CFO

Yes. Thanks for the question, Mike. In terms of quantifying it, I guess I would say we've given sort of an aggregate indication in terms of where we think lifestyle is going to come in full year. And we talk about it being a high single digit. So if you really look at last year where we came in and look at high single digits, it will give you a pretty good view of where we think lifestyle is going to come in for the full year. And part of that decrease is going to -- is based on the increase in the -- setting up the service and repair and investments that we're making in Connected Living broadly.

So that will be in the fourth quarter. And then we would anticipate some coming in next year. So I mean in terms of rolling into next year, there'll be some amount. A big amount -- the biggest amount, I would say, would be in the fourth quarter of this year. We are thinking a few million, and it will ramp up quite a bit into the fourth quarter. So we are talking in terms of millions here in terms of doing it.

Keith Warner Demmings
President, CEO & Director

Yes. And I would just add. In addition to the start-up costs really ramping, doing all the recruiting, the training, the hiring and getting all the build-outs done, there's also just the ongoing evolution of the service that we're going to deliver, which inevitably will change and evolve over time as we continue to work with T-Mobile to optimize that experience. So I do expect some investments in 2022, partly supporting the rollout to completion but also ramping execution and investing in our technology to make sure that we're delivering service as seamlessly as possible. So you definitely would expect to see some investments as we continue to shape this part of our business going forward.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. That makes sense. Two more kind of quick ones, I guess then. On the labor and material costs and the severity there, you talked about that quite a bit. I guess a follow-up. Richard, you said, if things continue -- I think you said if things continue, obviously, that could be offset in the future by higher rates over time. Does that mean you're currently pricing in for that or still kind of waiting to see how that plays out?

Richard Steven Dziadzio
Executive VP & CFO

Yes. Some of it is currently coming through. Every year in our contracts, we get an increase in what we -- what I referred to as average insured value. So that's embedded in the contracts. We look at inflation, and we do get some increase in the overall premiums from that.

When I was talking about the trends over time and the rate filing, one, we can't put in a rate filing for 1 quarter. When we file rates, it's based on averages over a couple of years. So that's really -- for inflation to come in and be lasting and have an impact on the non-cat loss ratio, it would need to come -- it would need to happen over time is what I was referring to there, Mike. And then we would put it in and then we get it. So there's a lag but it would be offset over time is what I was saying.

Michael Wayne Phillips
Morgan Stanley, Research Division

Sure. Okay. That makes sense. And I guess last quick one. Any impacts in the quarter on your sub -- mobile sub numbers from the T-Mobile cyberattack back in August?

Keith Warner Demmings
President, CEO & Director

No. I would say nothing meaningful that we're aware of or that we saw. I mean we have a really strong base of customers, and I don't think we saw anything of note that I'm aware of.

Operator

Our next question is coming from Mark Hughes with Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Congratulations to everyone. The -- refresh me on the revenue model for the in-store business with T-Mobile. Is it kind of time and materials? Is it repair per device, hourly reimbursement that were...

Keith Warner Demmings
President, CEO & Director

Yes. It's a great question. It's -- I would think of it as fee income-oriented and getting paid for the labor that we perform. And then for -- from the management of the overall program, we don't really have risk around how the business performs from a parts and labor other than we get stated fees. And we've got to manage ourselves within those levels to drive profitability.

So I think it's a really, really well structured financial deal. And our interests are very aligned, and it's very motivated around delivering an exceptional experience in the store. So I feel really good about not just the deal that we put together but how we're working together with T-Mobile to really change the industry.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And are they going to be advertising it? How are customers going to know that the repair capability is available?

Keith Warner Demmings
President, CEO & Director

Well, we obviously manage the claim process with end consumers, and now that's with the entire base of T-Mobile subscribers. So we'll be directing customers as appropriate to take advantage of really the best option that's available to them to get repairs done. So I think it will be largely through our claims flow but also through T-Mobile awareness campaigns, et cetera.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then, Richard, I think you all have addressed this to a degree, but any more adjectives or maybe the numbers you might throw when you're talking about 2022 earnings expansion to continue, though at more moderate levels? I think you also referred to strong growth in 2022. Anything else you want to add to that?

Richard Steven Dziadzio
Executive VP & CFO

Well, I wouldn't want to jump in front of Investor Day and when we talk about our outlook next year. I guess I would say 2 things. I mean we're -- as you've heard during the call, we're really pleased with where we are across our set of businesses, whether it be the growth that we're seeing in global auto, the extension of the contract with T-Mobile, the growth other -- elsewhere domestically in the U.S. in mobile, in Japan in mobile and also in the housing business. You see that we do seem to be at a bottom with placement rates. Now when the forbearance and foreclosure period will end, it will be a slow take-up. We continue to grow in multifamily housing. So we think we're well positioned for 2022.

Having said that, as Keith mentioned, we still need to continue to invest in ourselves and in our business. And it's not like we're without headwinds in terms of some interest rates or inflation. But I really feel good about where we are as a business totally. And I think Alan has put us in a good position to succeed over the future under Keith's leadership.

Operator

Our next question is coming from Jeff Schmitt from William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

How much of the increase in fee income in Connected Living was due to the HYLA acquisition? Obviously, there's kind of a weak comparison, too. But just curious how much of that is sort of organic growth, maybe driven by the 5G upgrade cycle versus HYLA being added to the mix.

Keith Warner Demmings
President, CEO & Director

Yes. I would say HYLA has been performing exceptionally well. So as we look at what's happened since close, trade-in volumes are up significantly. We've seen obviously not just demand from 5G, significant client promotions where trade-ins are the main incentive being used, increasing attach rates and just, I think, pent-up demand coming out of the pandemic. So we talk about the performance of the acquisition, 50% better than we modeled based on '21. So we're thrilled with how it's going. But more than that, really excited about the integration, how well that's working, our ability to protect talent, obviously a significant renewal of a major relationship with AT&T.

And then as you think about the overall volumes process, we talked about 18 million devices so far this year. That compares to 14 million for full year 2020, and that's overall in total, combining HYLA and Assurant. So yes, HYLA's a big driver of fee income but we've also seen growth on what I would call the legacy Assurant side of the trade-in business as well. And similar trends are happening across clients and across the market, so it's a really strong time for trade-in in the global market.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Okay. Great. And then the same-day service capabilities, you've touched on that quite a bit, rolling it out with T-Mobile here a few days ago, it sounds like. How much of -- are those capabilities being affected by labor shortages right now? I don't know if you touched on that, but just curious how you're managing that in the current environment.

Keith Warner Demmings
President, CEO & Director

Yes. Our team has done an incredible job. We've been working on this for many months, trying to acquire the right labor in various markets around the country. I would say our team, the recruiters that we're partnered with, some of the incentives that we've put in place to get the best talent, it's worked really well. Not to say there aren't challenges. Of course, there are. But our teams have partnered really well with third parties as well as with T-Mobile to make it happen.

Operator

Our last question is coming from Grace Carter with Bank of America.

Grace Helen Carter
BofA Securities, Research Division

We've talked a lot about structural tailwinds for attachment rate in mobile devices, one of them being rising prices. I was wondering, in kind of this more inflationary environment that we're looking at, if you've seen any sort of tangible impacts from the inflation impact on pricing driving up attachment rates at all; and to the extent that we continue to see a bit of higher inflation, if you think that, that should have any impacts going forward.

Keith Warner Demmings
President, CEO & Director

Yes. It's a great question. I would say maybe a little bit on the auto side if you think about really more of a mix shift point. So used cars tend to attach at slightly higher rates than new cars, and we've also seen obviously accelerating values on the used car side, which makes protecting the vehicle a higher likelihood. So we have seen a little bit of a mix shift there, which is benefiting the overall attach rate. I would say broadly though, pretty steady, pretty strong across the board. So nothing that I would signal as being overly dramatic but certainly good strong results.

Grace Helen Carter
BofA Securities, Research Division

Okay. And then just kind of a quick follow-up to that. I mean we've seen attachment rates across mobile devices and cars going up over the past several years. I mean do you think that there is an eventual ceiling on how high attachment rates can go? I mean what's kind of the long-term target there, I guess?

Keith Warner Demmings
President, CEO & Director

I think it varies by market, by geography. Some markets attach just based on consumer perception, consumer demand at higher levels. I definitely think we're -- we've got robust levels of attach rates broadly. I think they could still go up over time certainly.

I think awareness for the programs, the value proposition for our products continues to improve. The service delivery and the options for consumers and how much more convenient and important services to them today than it was a few years ago, I think all of those elements can drive more attach rates in the future. So still some upside, but really robust if I look at it in mature markets and then certainly growth opportunity in more of the emerging or more nascent markets.

Grace Helen Carter
BofA Securities, Research Division

Congrats, Alan.

Alan Colberg

All right. Thank you, Grace.

Keith Warner Demmings
President, CEO & Director

Thank you, everyone, for participating in today's call. In summary, we're very pleased with our year-to-date performance, and we're excited about the opportunities we have to serve our partners, our end consumers while delivering results for our shareholders. I look forward to officially taking the CEO role in January and updating you on our progress on the fourth quarter earnings call in February.

We're also hard at work and anticipating Assurant's 2022 Virtual Investor Day, which we expect to hold on March 24, and more details will be forthcoming in the weeks and months ahead. In the meantime, please reach out to Suzanne Shepherd and Sean Moshier with any follow-up questions. Thank you all, and have a great day.

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