S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

FQ3 2014 Earnings Call Transcripts

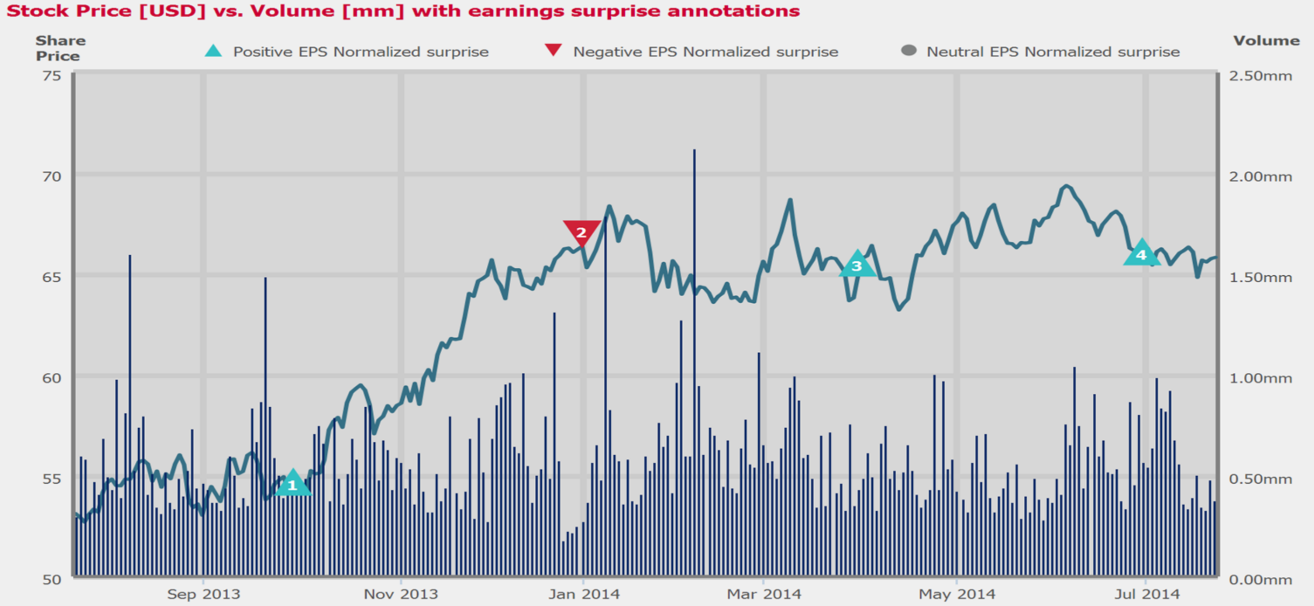
Thursday, October 30, 2014 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.61	1.82	▲13.04	1.60	6.51	6.47
Revenue (mm)	2537.76	2702.49	▲6.49	2520.58	10077.48	10387.97

Currency: USD
Consensus as of Oct-30-2014 11:49 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2013	1.49	1.71	▲1 14.77 %
FQ4 2013	1.43	1.42	▼2 (0.70 %)
FQ1 2014	1.55	1.68	▲3 8.39 %
FQ2 2014	1.54	1.62	▲4 5.19 %

Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Christopher J. Pagano
Executive VP & Chief Risk Officer

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

Robert B. Pollock
Former Chief Executive Officer and Executive Director

ANALYSTS

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

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

Sean Robert Dargan
Macquarie Research

Presentation

Operator

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

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

Thank you, Leo, and good morning, everyone. We look forward to discussing our third quarter 2014 results with you today. Joining me for Assurant's conference call are: Rob Pollock, our Chief Executive Officer; Alan Colberg, our President and incoming Chief Executive Officer; and Chris Pagano, our Chief Financial Officer and Treasurer. Yesterday afternoon, we issued a news release announcing our third quarter 2014 results. Both the release and corresponding financial supplement are available at assurant.com. We'll start today's call with brief remarks from Rob, Alan and Chris before moving into a Q&A session.

Some of the statements we make on today's call may be forward-looking, and actual results may differ materially from those projected in these statements. Additional information on factors that could cause actual results to differ materially from those projected can be found in yesterday's news release as well as in our SEC reports, including our 2013 Form 10-K. Today's call will also contain non-GAAP financial measures, which we believe are meaningful in evaluating the company's performance. For more details on these measures, the most comparable GAAP measures and a reconciliation of the 2, please refer to the news release and financial supplement posted on assurant.com.

Now, I will turn the call over to Rob.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Thanks, Francesca, and good morning, everyone. Overall, we're pleased with our performance for the quarter, despite weaker results at Health. We continued to execute on our strategy by evolving our mix of business to produce more earnings and cash flow over time. We're actively managing our business and aligning resources to support our best opportunities.

In the third quarter and during October, we strengthened our mobile business with 2 acquisitions. First, we invested in a device repair facility in the U.S. to support our growing customer base and expand our logistics capabilities. Second, earlier this week, we signed an agreement to purchase CWI Group, a leading mobile insurance administrator in France, with approximately $40 million in annual fee income. In addition, we further enhanced our mortgage value chain offerings by acquiring eMortgage Logic. These deals are in areas we have targeted for growth and also fit our acquisition playbook. They will add long-term value to our business. During the quarter, we also announced an agreement to sell our general agency property and casualty business. In combination with continued expense discipline, we're finding additional resources to direct toward our best opportunities.

Our progress this year is evidenced in our performance against 3 key financial metrics: annualized operating return on equity, excluding AOCI, was 11% year-to-date; book value per diluted share, excluding AOCI, has increased over 8% this year; and revenue, defined as net earned premiums and fees, was up 18% year-to-date, driven by expansion across all 4 operating segments and including an increase of more than $300 million in fee income. Our balance sheet remains strong. At quarter end, we have $560 million in corporate capital, including our $250 million capital buffer. Strong cash flow generation provides us the flexibility to grow both organically and through acquisitions and return capital to shareholders.

Now, I'll provide updates for each of our segments. Assurant Solutions delivered another strong quarter. The earnings improvement was primarily driven by our success providing services across the mobile value chain. The 2 acquisitions in mobile will further improve our operational efficiency and expand our distribution into France, one of the largest mobile markets in the world. At the same time, our core service contract business continues to perform well. We're adapting our distribution through e-tailers and original equipment manufacturers while moving resources away from certain retailers. We continue to capitalize on opportunities to strengthen our competitive advantage by meeting the needs of our customers. This will serve us well in a rapidly changing environment.

Assurant Specialty Property's results also were strong, reflecting the benign hurricane season. During the quarter, we broadened our product offerings to mortgage lenders and servicers by purchasing eMortgage Logic, a leading provider of residential valuation products and technology services. We now offer property appraisal, preservation and valuation services, which together are expected to generate more than $250 million in annualized fee income next year. We believe we can grow in future periods by offering more comprehensive solutions for our clients, even in the sluggish housing market. We've seen early confirmation of our strategy, as we expanded our business with new and existing clients.

Our position as a trusted adviser with a strong financial foundation is resonating. In 2015, we'll strive to profitably increase market share with value-added offerings. Our targeted growth strategy requires us not only to invest in new capabilities but also to redeploy assets when appropriate. This month, we announced an agreement to sell our general agency P&C business and its primary statutory insurance company, American Reliable. This sale highlights our strategic focus on the core lender-placed business and growth initiatives, including services to the mortgage and multi-family housing industries.

Let's now turn to Assurant Health. The segment's loss in the quarter was disappointing. We think it's important to explain the dynamics that affected results in the Affordable Care Act marketplace. Last fall, during the first open enrollment, we made pricing assumptions about the risk pool of consumers buying policies in a guaranteed issue environment. We believe that existing policyholders who were required to transition to ACA plans would be healthier than new enrollees. However, changes in the rules announced last November and again in March allowed policyholders to extend their existing coverage through 2016. Therefore, ACA business had worse morbidity characteristics than we had assumed, and pricing of policies could not be modified. In January, we will reset pricing for all ACA policies. We believe our rate actions, plan design changes and increased scale through our distribution on select public exchanges will drive improved results.

Assurant Health submitted filings to participate on 16 exchanges during the ACA open enrollment period which begins next month. This will allow us to meet the needs of consumers who may purchase on the exchange. At the same time, we'll be able to provide integrated quoting and enrollment services to our national distribution partners for policies sold on or off the exchanges. At Assurant Employee Benefits, voluntary remains the growth engine, with premiums up 12% year-over-year. Our investments in voluntary to broaden our offering, expand our distribution and strengthen our enrollment capabilities continue to yield results. In addition, we renewed our dental network agreement with Aetna for another 3 years. This partnership helps to further strengthen our competitive advantage in the group benefits marketplace by providing a broader panel of dentists for our customers.

We're pleased with the transformation of our Employee Benefits business under John Roberts' strong leadership. Following John's retirement in January, Adam Lamnin will broaden his role and lead both Assurant Health and Employee Benefits. Although these businesses will continue to run separately, we believe there are additional opportunities to collaborate on distribution, realize efficiencies and more tightly align strategies on resource deployment. It's been a pleasure to work with John over the past 10 years, and I want to thank him for his many contributions to Assurant.

Across the company, we continue to adapt, strengthen and grow. We have strong momentum and we believe we can sustain our progress and successfully execute on our strategy. As I prepare to transition my duties, I'm especially pleased by the board's choice of Alan Colberg as President and incoming CEO in January. Alan is an accomplished executive. We've benefited from his counsel and guidance for many years, first at Bain & Company and since 2011, as a key member of our management committee. Alan has been influential in shaping our strategy, accelerating innovation and inspiring a customer focus throughout Assurant.

Before Chris elaborates on the quarter, I'd ask Alan to share a few of his thoughts on what's ahead. Alan?

Alan B. Colberg
President, CEO & Director

Thanks, Rob, and good morning, everyone. We've been fortunate to have great stability with only 3 CEOs in the nearly 40-year history of Assurant. I am honored to succeed Rob as the fourth CEO.

Rob has set the tone and embodied the values and culture of Assurant. He's been instrumental in building the successful Fortune 500 Company Assurant is today. As Rob prepares to retire, our company is in a strong position competitively and financially. On behalf of our 17,500 employees, I want to thank Rob for his leadership, his many contributions and to wish him the very best in his retirement.

Looking ahead, I believe we can build an even stronger Assurant for the future. We remain committed to our aspiration of outperformance; for our customers, with products and services that meet their needs; for our employees, to be part of a great place to work; and for our shareholders, as we achieve top quartile performance against our peer group over time.

We are a company with a long history of adapting to external change, and we will continue to do so even as the environment rapidly evolves. My confidence is bolstered by the dedication and deep experience of our senior management team. Together, we will focus on 3 key priorities as we strive for outperformance. First, we will live our purpose to help protect what matters most to our customers. Second, we will understand consumers and clients' needs and innovate in the ways we serve them. And third, we will deliver profitable growth.

We have strong momentum today. As we emphasized during Investor Day, we will capitalize on macro trends to grow earnings long term. We will do so by meeting customer needs around their risk events, whether through specialty insurance products or related services. This will require us to innovate faster around end consumer needs to drive organic growth. At the same time, we must ensure operational excellence to become more efficient while also delivering outstanding customer experiences. Finally, we are committed to maintaining our track record of disciplined capital management by balancing organic growth, potential acquisitions and return of capital to shareholders to create value. In the next several weeks, I'll have the opportunity to visit with many of you, and I look forward to it.

With that, I'll now turn to Chris for more detailed comments on our third quarter results and outlook.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Thanks, Alan. I share your confidence in our opportunities to build upon our strong foundation and momentum.

Now, let's take a closer look at our progress. I'll begin with solutions. Third quarter net operating income was $52 million, an increase of more than 40% from the prior year. This increase was driven primarily by mobile, where we continue to benefit from robust growth in covered devices in the U.S. and other international markets, continued favorable domestic loss experience and $5 million of additional income from client marketing programs. Our international operations also improved as the European restructuring initiated last year continues to generate savings. We are on track to fully realize our commitment of $25 million of annualized gross savings next quarter. The third quarter also included a $2.7 million impairment charge related to a software system that supports our domestic credit business. We continue to manage expenses closely as this business declines.

Turning to net earned premiums and fees. The continued success of our mobile and service contract offerings in the U.S. and Latin America drove a 22% increase in revenue. Our acquisition of Lifestyle Services Group in the U.K. also contributed to growth in the quarter. Given Solutions' strong performance year-to-date, we believe 2014 full year results will exceed our expectations. This is largely due to robust mobile performance, including additional income generated from client marketing programs, which may fluctuate year-to-year. As we look ahead to 2015, expansion from the targeted growth areas will help offset continued declines in domestic and European credit as well as runoff business from certain retailers. We believe that the investments we've made in mobile and international, along with ongoing expense management, will position us for earnings growth going forward.

Moving to Specialty Property. Net operating income was $105 million compared to $115 million in the third quarter of 2013. The decrease primarily reflects margin pressure from lower premium rates as we implement our new lender-placed product. Non-catastrophe losses increased slightly, driven by the higher frequency of claims from properties that moved to foreclosure. Net earned premiums increased by 7% in the quarter. We recorded some residual benefit from the discontinuation of a client quota share arrangement, partially offset by lower premium rates.

Fee income also increased significantly, primarily due to $55 million from Field Asset Services and StreetLinks. As a reminder, these fee income acquisitions carry higher expense ratios than our insurance products. For the quarter, Specialty Property's expense ratio increased by 640 basis points, of which nearly 500 basis points was attributable to our acquisitions in the mortgage value chain. In September, we announced that a client decided to transition approximately 600,000 loans with a higher-than-average placement rate. We anticipate the impact of this change will begin in the fourth quarter.

Looking ahead to 2015, we expect Property's net earned premiums will decline as our lender-placed business normalizes. Lower placement rates, a decrease in average premium rates and the previously mentioned loan transition will all contribute to lower revenue. In addition, the sale of American Reliable is expected to close in the first quarter of 2015. As a result, annualized net earned premiums will decrease by approximately $250 million. This sale, however, will provide additional capital to be deployed in targeted growth areas throughout Assurant. Specialty Property's refined focus will allow us to generate profitable growth from multi-family housing and our mortgage value chain fee income products in 2015.

At Health, the net operating loss was driven by higher-than-anticipated claims on ACA policies. As a result, the loss ratio in the third quarter increased by 740 basis points year-over-year to 81.7%. The ACA plan extensions that Rob mentioned were the primary driver of this increase. Claims activity was only partially mitigated by the ACA reinsurance and risk adjustment programs. As of September 30, our estimated recoveries from the reinsurance and risk adjustment programs increased to $257 million, also a reflection of growth in premiums related to ACA plans. We will continue to refine these estimates as we review our historical claims payment patterns and receive additional market data. While we anticipate higher claims activity to persist in the fourth quarter, we believe new 2015 rates and plan design changes, along with increased scale and ongoing expense discipline, will improve results beginning next year.

Turning to Employee Benefits. Earnings doubled year-over-year due to improved disability results in the quarter. During the period, we also started the process to close one of our disability claims offices. This is another example of our efforts to streamline operations for better efficiencies. For 2015, we expect the voluntary business to continue to grow well in excess of the market rate. At the same time, we anticipate taking additional actions to lower our general expense ratio over the long term.

At Corporate, we ended September with $310 million in deployable capital. During the quarter, we paid approximately $30 million at closing for eMortgage Logic and our new mobile repair facility and returned $57 million to shareholders through share repurchases and dividends. Through October 24, we purchased an additional 571,000 shares for $36 million. We believe the stock remains attractively priced. Segment dividends year-to-date, net of infusions, totaled $252 million or 57% of segment earnings. By the end of the year, we expect to dividend total segment earnings to the holding company, subject to growth in the business and rating agency requirements.

As hurricane season draws to a close, our strong holding company capital position and segment dividend capacity should provide us with additional flexibility to repurchase shares and to make investments in our business organic or through M&A. As a reminder, the acquisition of CWI Group for $71 million is expected to close in the fourth quarter, while the sale of American Reliable for $114 million and the associated capital release will be a first quarter 2015 event. Our investment portfolio continues to perform well, and our low turnover strategy has helped to preserve the overall portfolio book yield. Should the current low interest rate environment persist, however, investment income will decline as the portfolio's book yield steadily migrates to the market yield.

Overall, we are pleased with the third quarter and performance so far this year. We continue to make progress against the strategic objectives we outlined at Investor Day as we grow and diversify earnings for the long term. In closing, Rob, I want to echo the gratitude we all feel for your many contributions to

Assurant over your 33-year career and especially for your inspiring leadership as CEO. Your expertise and management style have set a tremendous example for so many of us. Thanks for the opportunity to learn from and work with you. And my very best wishes for the future.
And with that, operator, please open the call for questions.

Question and Answer

Operator

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

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

They got Nadel and Agee right. Question for you on -- maybe a couple of questions around Health to start. And that is, I guess, can you give us any sense yet -- maybe you've gotten some state approvals already on rates -- on rate increases, but can you give us some help on understanding the magnitude of the rate increases, particularly those that you've already gotten approval on? What's that process entail? I mean, when will you know finally what your rates are going to be for new business starting January 2015? And whether it's -- based on your current assumptions, you're going to get to a point where it's sufficient to reverse this margin issue.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Sure. So let me just start, John, a little bit looking back when we -- the whole Affordable Care Act was passed. And we set and embarked on a strategy around affordability and choice, okay? And as we looked at things, the first question we needed to know was, was that going to resonate? I think that, that proved, indeed, to be the case with our sales last year. And we also knew that 2014 was going to be a bumpy year because you just had a lot of discontinuous change going on. Our results were disappointed, but they're almost entirely explainable by what happened with extenders, which we've talked about a little bit. Because we can split our experience up and realize what's happened there. Now to your question on the rate increase side, we've been filing rate increases. They're going to be reflecting that new risk pool. And the good news is we've received approval in almost all states. There's a few that are still left, but they're substantial. They vary based on geography and location. But we're very confident they're going to meet what we need to make this business profitable in 2015.

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

And I think maybe just as a follow-up to that point. If you think about the assumptions that go into figuring out what kind of rate you need to get back to your targeted margins, I guess at what point in time did you really start filing these rate increases? Because it seems -- and maybe I'm wrong on this, but it sure seems like the negative performance of the ACA piece of the block really has -- I mean, maybe it started to show up much earlier this year, but it's really showing up in your GAAP earnings this quarter. So...

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. So let me start and then I think Alan might have a few comments to add. But we started filing in June. And if you think about what I mentioned earlier on our strategy, first thing we needed to prove was we could sell. Boy, we were able to prove that in 2014. We sold off exchange, sold plenty of it. But when we looked toward 2015 and as we saw experience emerge, we realize we needed more rate. And so we took aggressive action. But we've gotten our expenses down, we've gotten the scale, okay, in the business and now we're into refinements, which is right in our wheelhouse of what we're good at.

Alan B. Colberg
President, CEO & Director

Yes. And John, let me add a couple of thoughts on kind of the future of Health. I think the important thing I would say is we're confident in the future of Health. If you look at the market, obviously, PPACA has created short-term disruption, but it creates long-term opportunities for us to continue to do what we've always done, which is adapt. And we have a strong track record in that business of being able to adapt and make very good margins. And when we look at 2015, we are confident results are going to improve, as a part because of the pricing actions that we just discussed, in part because of some plan design changes that we've made. And then we have continued the expense management discipline that has been a hallmark of the last few years, combined that with some additional scale as we expand distribution. And we feel results will be improving in 2015.

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

And then just -- listen, I appreciate all those comments, right? I mean, and there's probably going to be a little bit of show me here to make sure that what's going through is going to really reverse this. And if I think about -- maybe just last question on Health is this. If you're assumptions are right and your pricing is right, is 2015 a year for Health, where you're getting toward your targeted margins? Or is it a transition year on the path toward those targeted margins? I don't know if I'm phrasing that quite well.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. So I think that what we've pointed out in the past, John, is it would take a few years to get to our ultimate goals. But you're going to see substantial progress next year and results getting better. I get you on show me because we've had the same discussions with Health and they've been able to demonstrate. And we can look and understand that extender impact on our business in some detail, which give us confidence.

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

Okay. All right. And then as it relates to the risk adjustment mitigating the $257 million, I think, you've got booked right now, when -- at what point -- how far into the future do we have to go? And how much more data do we have to see before you guys actually have that number figured out, to the point where there's little risk of movement in it up or down?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. So we're participating in 2 of the 3 mitigation Rs, if you will. Reinsurance, we've got that one pretty well understood, and it's just going to be a function of how the government decides to coinsure reimburse, whether it's going to be 80% or something higher. But we have all those claims identified and feel very good about it. We're just waiting for them to make a final determination on how they're going to distribute the money they've collected. On the risk adjuster, a little bit different, okay, because this is a need to compile up -- we know what our business looks like from a risk score, but it's not just that. It's our risk adjustment compared to the overall market. So you need an aggregation of all that data. And if you look this quarter, there were obviously a lot more experience brought into that. We thought our business was -- had a higher risk adjuster score than it ultimately has. And the reason it doesn't is, again, the overall pool was a little worse than we anticipated.

Operator

Our next question comes from Sean Dargan of Macquarie.

Sean Robert Dargan
Macquarie Research

As I look at the performance in solutions, you do call out subscriber growth in the press release. And I realize there are a lot of moving parts between premiums and fee income. But is there any way that we -- that you can provide us with, I guess, a subscriber count so that we could somehow tie that to something in building our models for that segment? It's just difficult for me to kind of get my arms around what the impact is.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Understood. I think there's maybe 2 -- I'll make a couple comments and then Chris can provide some specifics. I think as we play across that mobile value chain, Sean, we've got some situations where the involvement with the subscriber may be deeper than it is with others. But we've got numbers on the subscribers. Chris, you want to just share some of them?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. Sean, yes, I think, I mean, the aggregate number for this quarter is $25 million globally. Now that's up 20% from the previous quarter. So there's significant growth in the business, again, validating our view that this is a targeted growth area for us. But I think as Rob points out, our interaction with those subscribers differs by client, by region, et cetera. But in aggregate, a 20% increase for a quarter-over-quarter.

Sean Robert Dargan
Macquarie Research

Okay. And on Specialty Property, there was a mortgage industry publication that ran something indicating that there would be a new entrant who would come to market with premiums lower than presumably your QBE. Do you have any update or anything you can tell us about whether you see any evidence of that?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, this is a marketplace that's always been quite competitive, and there have been a lot of players there. We feel very good about our position based on how we've built our platform and operate. So we can't really comment on any particulars on who may enter or in the past, we've seen people leave the market. We feel very good about our position.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, Sean, it's Chris. I think, longer term, the outlook for the Property business in lender-placed is really about market forces, decline in the placement rate, lower premiums. It's really -- and all of which we factored into our forecast. Now having said that, we're not waiting around for that to happen, but we're looking to diversify the revenue sources, leveraging our role as a trusted adviser in the mortgage space, moving into a mortgage value chain, broadening our offerings, et cetera. So again, which we look for that to be in 2015, a $250-plus million source of fee income for us. So we -- again, the forces are going to create a normalization of the lender-placed business. We've factored that in. We still think it's going to be an attractive business, 20% returns, still a Specialty business for us and then leveraging that into these newer sources of fee income.

Operator

[Operator Instructions] Our next question comes from Mark Hughes of SunTrust.

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

You had talked about the voluntary business within Benefits growing, I think, well in excess of the market rate. What gives you confidence there? And then to what extent are exchanges, Health exchanges, or other private exchanges factoring into your strategy on voluntary benefits?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. So we've been investing in the voluntary area for quite some time, and we think we're ahead on a variety of things that are needed to be successful in that marketplace. So we like our position in voluntary.

We think that it will continue to expand. And I'll let Alan comment a little bit on why we think that in a moment. In terms of the private exchanges, though, to address that, Mark, it's been very small, and it's -- we're getting some learnings out of it. But I wouldn't say that it's taken hold yet. Alan, do you want to comment on voluntary for just a second?

Alan B. Colberg
President, CEO & Director

Yes, thanks, Rob. And Mark, the way we've thought about this is thinking about where do we have macro trends in our businesses, that if we could get more resources appropriately against those trends, we could create long-term shareholder value. One of those trends is this evolution from employers paying for benefits to employees paying for benefits. Very similar to what happened in pensions, with defined benefit moving to defined contribution. We've seen the same thing developing in the voluntary space or in the work site space. So as Rob said, we've been investing against that for years. And I think we feel like we are out ahead of most of our competitors with capabilities, with distribution. And it also creates an interesting opportunity as we think about the announcement of Adam sitting on top of both Health and Benefits. Although those remain separate companies and we intend to operate them as separate companies, thinking about how we leverage some of those capabilities for our Health products is another interesting lever. So we're quite excited about that business. Our team in Benefits has a long track record of outperforming and growing that business. And I think you'll see us continuing to invest behind voluntary.

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

What's the most important area? Is it the distribution relationships? Is it the product design? What's the key factor?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Actually, a lot of it is around enrollment and administration and making sure things that sound rather simple, like getting the bills right, sounds easy, does hard when you've got changes in employment going on. So what -- the employer is going to research the company and endorse it. But then, boy, you got to execute because they cannot afford to have issues around payroll.

Operator

Our next question is a follow-up from John Nadel of Sterne Agee.

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

I may do this a few times. The -- I guess 2 quick ones. One, I think Chris, you said that, that subscriber number was up 20%. I just wasn't sure if it was on a year-over-year basis versus third quarter '13 or if that's a sequential growth rate.

Christopher J. Pagano
Executive VP & Chief Risk Officer

That number since year-end, John. Sorry.

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

Okay. So that's since year-end. Okay, perfect. Another quick one for you guys. As you lose this block with a higher placement rate in 4Q, at least on a pro forma basis, how big of an impact does that have on the placement rate for 4Q? If we think about, relative to the third quarter placement rate, how much did that fall, approximately?

Robert B. Pollock

Former Chief Executive Officer and Executive Director

So I think what we've talked about, John, is about $80 million of premium annually, with roughly an 8% placement rate.

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

Okay. All right. I can do that. And then I guess a bigger picture question. Alan, I suppose as you're taking over, maybe I'd prefer to direct it to you, no disrespect to Rob or Chris.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure.

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

You guys have -- you're in an enviable position, right, that you have a significant amount of current excess capital and on a pro forma basis by the time you close on the sale of American Reliable, significantly higher still. So I know you guys have talked about your priorities for deploying capital over time, and there's been a lot of consistency for a bunch of years on that. But I guess my question for you is this, Alan. How high will you actually let excess capital get before you really do feel like you've reached the limit, where anything above that amount just needs to be returned to shareholders, even if it's in an accelerated buyback or a special dividend? Have you given any real thought to that?

Alan B. Colberg
President, CEO & Director

Yes, let me start, John. Our strategy on capital management is going to be unchanged. We're going to continue the approach that we've taken of kind of a balanced deployment of capital, looking at the best opportunities between returning capital to shareholders, investing in organic growth and, as appropriate, where the hurdle rates are met, selectively augmenting our capabilities or distribution with M&A. That's going to be unchanged. And I think you'll see us doing that. Really, what we're trying to do over time is create shareholder value through that combination of capital management. We're looking to grow the earnings. We are actively managing our resources and businesses as you've seen with the -- both the acquisitions and the divestitures in the recent quarter. We continue to invest selectively in capabilities. And so all of that brings us to what we're really focused on as we do this. And I'll ask Chris in a minute to talk about how we thought about M&A in that context of the overall capital management, is creating value through that disciplined capital management. To answer your question more directly, we're not going to set a specific number. We're going to continuously look at the market, look at the opportunities and make the right decisions to create shareholder value. But Chris, maybe you can talk a little bit about M&A in the context of that overall capital management.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, John, and again, to Alan's first point, the strategy is unchanged. And going forward, it -- we've always felt it was a combination of growth in NOI and returning capital to shareholders and growing per share -- NOI per share book value, et cetera, that was going to create long-term value. If you think about the last 5 years of activity, there's been consistency there. The key difference being the discipline around recognizing that the shares were significantly underpriced, and therefore, share repurchase was, in many ways, the only prudent use of deployable capital. The last 2 years, that's changed. We've moved closer to share -- to fair value on the share price but still believe it's attractive. And Alan's point again around discipline, if the -- deployable capital position, it will ebb and flow over time. I think the key here is we continue to generate cash from the operating companies, and that cash-generating power is our -- one of our biggest assets. And the goal is to take that asset and grow more cash flow. So again, I think -- and I think we've been consistent in the last 2 years around this combination in terms of returning it to shareholders and deploying it via M&A or organically. The one thing you comment on a special dividend, don't see that as a possibility. We think that -- we believe in -- that our shares are undervalued. So and prefer to be in the market consistently with respect to share purchase.

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

Yes. And listen, don't take me the wrong way by asking the question. I agree completely that you guys have been consistent. I was just more thinking about it seems to be a growing dollar amount. And that was the nature of the question. Last one, real quick, is just on the sale of American Reliable. Is that the piece that's responsible for $250 million of premium that should come off the books? Is there anything around that?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

No, that's it.

Operator

And there are no further questions at this time. I would like to turn the conference back over to Mr. Rob Pollock, CEO, for any concluding remarks.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

As we close the call, I want to take a moment to thank my Assurant colleagues for their dedication. They make Assurant a special place to work. I also want to thank the investment community and investors for their time and interest in Assurant. As always, you can reach out to Francesca, Suzanne and Gesue [ph] with any follow-up questions.

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