S&P Capital IQ

CONTENTS

Assurant, Inc. NYSE:AIZ

FQ1 2013 Earnings Call Transcripts

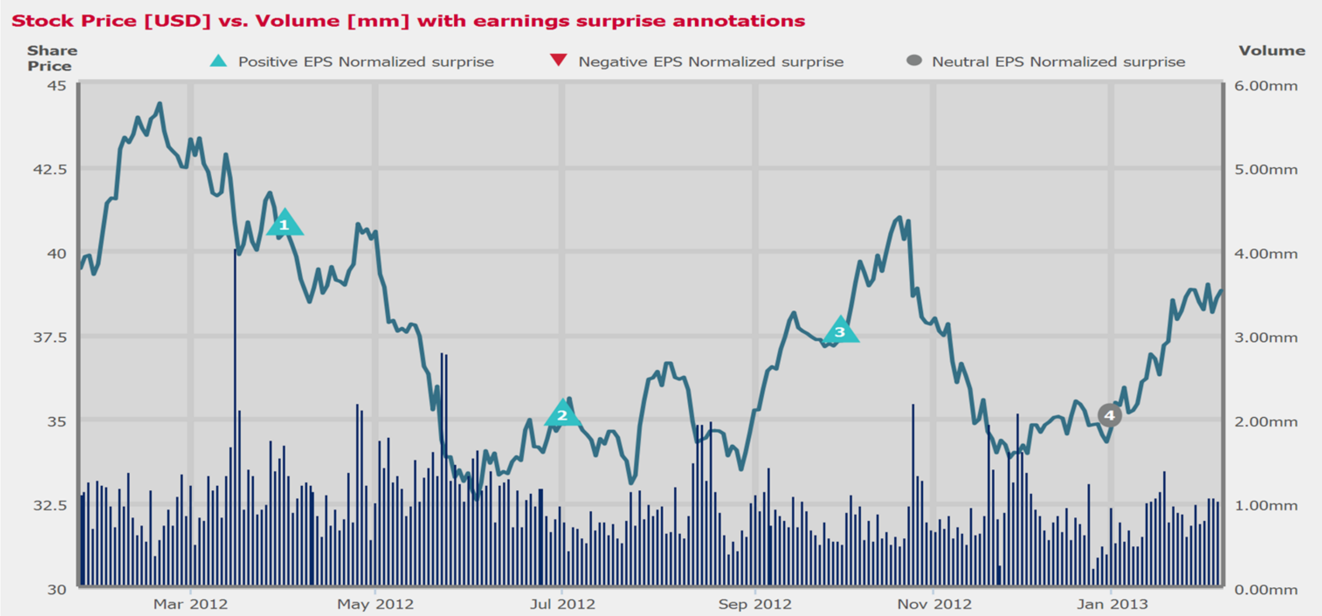
Thursday, April 25, 2013 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.54	1.35	▼ (12.34 %)	1.46	5.71	5.81
Revenue (mm)	2111.57	2150.62	▲ 1.85	2113.21	8468.62	8831.06

Currency: USD

Consensus as of Apr-25-2013 12:26 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	1.43	1.76	▲1 23.08 %
FQ2 2012	1.38	1.81	▲2 31.16 %
FQ3 2012	1.43	1.55	▲3 8.39 %
FQ4 2012	(0.28)	0.07	NM

Call Participants

EXECUTIVES

Christopher J. Pagano
Executive VP & Chief Risk Officer

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Robert B. Pollock
Former Chief Executive Officer and Executive Director

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Sean Robert Dargan
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Presentation

Operator

Welcome to Assurant's First Quarter 2013 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, Zach, and good morning, everyone. We look forward to discussing our first quarter 2013 results with you today. Joining me for Assurant's conference call are Rob Pollock, our President and Chief Executive Officer; Mike Peninger, our Chief Financial Officer; and Chris Pagano, our Chief Investment Officer and Treasurer.

Yesterday afternoon, we issued a news release announcing our first quarter 2013 results. Both the release and corresponding financial supplement are available at assurant.com. We'll start today's call with brief remarks from Rob and Mike, with Chris participating in the 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 are provided in yesterday's news release, as well as in our SEC reports including our 2012 Form 10-K and upcoming first quarter 2013 10-Q.

Today's call also will 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 at 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. In the first quarter, we continued to build our foundation for profitable growth. While earnings were down, we expanded and further adapted our business in several areas to address market needs.

For example, at Assurant Solutions, we're growing premiums and taking expense actions in underperforming areas to further improve efficiency. At Specialty Property, we're growing our track loan portfolio, moving ahead with the implementation of our new product and resolving lender-placed matters.

At Health, we're executing on our strategy centered on affordable and accessible products as details of health care reform are finalized. And at Employee Benefits, we're gaining momentum in our voluntary products through targeted distribution. These represent several of the actions we're taking to advance long-term growth, enhance profitability and help consumers protect what matters most for them.

Let me now update you on our key performance metrics for the quarter. Annualized operating return on equity, excluding accumulated other comprehensive income, or AOCI, was 10%. Book value per diluted share excluding AOCI increased by 2%, and net earned premiums and fees increased by 4%, driven by growth at Solutions and Specialty Property.

Our capital position provides us great flexibility, which was further enhanced by our recent debt offering. We continue to regard our stock as attractively priced and believe repurchases are a prudent use of capital. Through April 19, share buybacks for 2013 totaled $96 million.

Share repurchase activity in the first quarter was affected by settlement discussions with the New York Department of Financial Services. We resumed buybacks following the agreement. Returning cash to investors is an integral part of our disciplined approach to capital management. Our segments generate free cash flow that will allow us to both return capital to shareholders and make ongoing investments to build our business.

Now I'll offer some updates on each of our businesses. Assurant Solutions remains focused on achieving a 14% ROE in 2014. Returns in domestic service contracts continue to exceed our target. On the new business front, our vehicle service contract business benefited from a rebounding U.S. auto market.

Looking ahead, we expect mobile to become an increasingly important contributor to our results. We are making steady progress in growing our mobile franchise by developing innovative offerings and expanding relationships with existing clients.

During the quarter, we launched a small but important program with TIM, the largest mobile carrier in Italy, allowing us to broaden our mobile footprint in Europe. In Latin America, the rollout of our Telefónica partnership continues and is going well.

Achieving our 14% ROE goal will require continued expense management. While the U.K. narrowed its operating loss in the first quarter, macroeconomic conditions remain challenging. We are committed to meeting our goal of U.K. profitability in the third quarter, but it will require further expense reductions.

At Assurant Specialty Property, we are pleased by the continued progress in our multifamily housing business. We now provide our renters and resident bond products through many of the nation's largest property managers. We believe we can expand this business even further in the future.

Revenues also increased in our lender-placed business. We now provide insurance and related services for nearly 33 million loans. This represents a 16% increase from the first quarter of last year, even though we believe the nationwide inventory of mortgage loans declined over that period.

Our strategy of aligning with market leaders continues to pay off. In the next 2 quarters, we will add another 900,000 loans from portfolio acquisitions by 2 of our clients. Our growth is a testament to our robust capabilities, rigorous processes and high-quality service.

The rollout of our new lender-placed product is on track and will be implemented in 28 states by the end of the second quarter. Our new product forms and rates submitted to New York in March are pending review. In Florida, we will participate in a rate review next month to discuss our previously submitted filing.

During the quarter, the FHFA issued a notice of several potential changes to lender-placed insurance on GSE loans, such as the elimination of commissions and client reinsurance. We anticipate FHFA will publish final regulations later this year. We believe our new product offers solutions to the issues that emerged in the wake of the housing crisis and provides additional flexibility for mortgage servicers. As a leader, we have the capacity, expertise and capabilities to support both our clients and the GSEs as the housing market evolves.

At Assurant Health, we posted a net operating loss for the quarter that was driven by an increased tax liability related to the health care reform. At the same time, Health total sales grew for the fourth consecutive quarter, affirming that choice and affordability are important to consumers.

Major medical product sales increased as we benefited from our network partnership with Aetna. Sales of health access and supplemental products now comprise an increasing portion of total sales. We're encouraged by our sales momentum. We're moving ahead with a new suite of products to cover the essential health benefits required in 2014. We continue to believe our broad product portfolio allows us to meet a variety of consumer preferences.

At Assurant Employee Benefits, our easy-to-use administrative and enrollment systems give us a competitive advantage in the small employer market. We were encouraged that new business sales increased 19% over the first quarter of 2012. Key drivers of this growth were our enhanced demo network and expanding relationships with key brokers, including those focused on voluntary offerings.

Looking ahead, we remain committed to achieving steady improvements across each of our businesses by meeting the needs of consumers and clients, and, in turn, delivering long-term value to our shareholders. And with that, I'll turn to Mike for more detailed comments on our results.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Thanks, Rob. I'll start with Assurant Solutions, where net operating income declined by $6 million year-over-year, excluding a $2.4 million disclosed item in the first quarter of 2012. Higher mortality in our preneed business and the previously disclosed loss of a mobile client contributed to the decline. Mortality experience can vary by quarter, and we expect preneed's results to improve during the rest of the year.

Domestic net earned premiums and fees increased significantly, primarily due to accelerated growth at a large service contract client. Our vehicle service contract business also grew as auto sales continued to rebound. This premium growth offset declines in other accounts, including the lost mobile account. We continue to expect modest growth in domestic premiums and fees over the rest of the year.

Continued expansion in Latin America across all products and the previous expense management efforts in Europe drove a 90 basis point improvement in the international combined ratio, excluding the first quarter 2012 disclosed item. Our international operations remain on track to deliver a 100 to 200 basis point improvement in the combined ratio for the full year, excluding disclosed items.

In the U.S., our combined ratio was 96.9% for the quarter, a slight increase from the prior year but well below our long-term target of 98%, as expense actions taken last year are improving results.

At Specialty Property, net operating income declined year-over-year. The decrease was driven by the $14 million settlement agreement in New York, $5.6 million of losses from hailstorms in the southeast and $4.4 million of unfavorable loss development from Superstorm Sandy.

Significant loan volume growth during the past year contributed to higher expenses in the quarter as we expanded capacity to service new loans. Excluding these factors, Specialty Property's underlying results were solid, demonstrating our leading market position.

Net earned premiums and fees increased by 9% due to premium production from lender-placed loan portfolios added in 2012 and contributions from multifamily housing products.

Our placement rate in the first quarter remained elevated at 2.89%, largely driven by loan portfolios acquired in the fourth quarter of 2012. Absent these loans, placement rates would have declined slightly.

We onboarded 1.7 million loans in the first quarter. And as Rob mentioned, we expect to add another 900,000 loans over the next 2 quarters. These 2.6 million new loans will produce premiums starting later this year. The changing composition of our loan portfolio, combined with macro trends, will lead to lower placement rates in the future; however, the new loans will help sustain our revenues over the course of 2013.

Given the increase in loan volume, we now expect our expense ratio, excluding disclosed items, to increase versus 2012 as we further expand capacity to support this growth and continue to enhance our customer service capabilities. We will update you later on our further progress at Specialty Property once we roll out our new lender-placed insurance product in other states and see the FHFA's final regulations.

Assurant Health reported a net operating loss for the quarter, reflecting the continued impact of health care reform. We increased our estimate of compensation expenses that are nondeductible under the Affordable Care Act. This change in estimate resulted in a $10 million addition to our income tax expense in the first quarter.

Pretax earnings were in line with our expectations. In the first quarter, Health earned $14.5 million compared to $19.5 million in the first quarter of 2012. The decrease was driven by the continuing decline in individual major medical premiums and fewer small group lives. We are pleased with recent sales momentum, which has moderated the rate of revenue decline compared to past quarters. Also total insured lives continues to grow.

Going forward, we expect our effective tax rate to remain very high during the rest of 2013. This is primarily due to higher nondeductible compensation expenses and comparatively lower pretax earnings in 2012. For the full year, we now expect a modest after-tax profit in Health. In the near term, we consider pretax earnings a better gauge of underlying potential of the business than after-tax results.

We continue to believe that the long-term prospects for Health are favorable. We are building a product and distribution platform that will enable us to serve markets that should grow significantly as reform unfolds. At the same time, we will continue to manage our expenses and capital efficiently. As the business grows and pretax earnings increase, effective tax rates will moderate, leading to attractive after-tax returns for shareholders.

At Employee Benefits, investment income declined due to continued low yields and fewer invested assets. This decrease, along with the reduction in the discount rate for new long-term disability claim reserves, reduced segment profitability. As in preneed, we experienced higher mortality in the first quarter, but this was entirely offset by continued strong dental experience. Disability incidents and recovery rates remained stable during the quarter.

Net earned premiums and fees declined modestly due to the residual impact of the previously disclosed loss of 2 disability clients last year. For 2013 overall, we still expect net earned premiums and fees to be in line with 2012 due to continued growth in voluntary products. Expense and capital management will remain a focus throughout the year.

Turning to corporate matters. We recently issued $700 million of debt at attractive yields. We set aside $500 million of the proceeds to repay our 2014 notes when they mature next February. The additional debt will increase our after-tax interest expense by $11 million in 2013. However, after the 2014 notes mature, our after-tax interest expense will decrease by about $3 million a year, even with the additional $200 million of debt.

We continue to manage our capital prudently. Consistent with prior years, we took a modest $21 million of dividends from the operating companies in the first quarter. We still anticipate that dividends for the full year will equal operating earnings. As always, dividends may vary depending on the capital needs of the businesses and rating agency requirements.

For the full year, we continue to expect our Corporate segment operating loss to be in the range of $65 million to $70 million, excluding $50 million of after-tax interest expense and roughly $11 million of after-tax benefit from amortization of deferred gains.
In summary, while we had some challenges in the quarter, the underlying results in our targeted growth areas are encouraging. Profitable growth, ongoing expense management and prudent capital deployment remain key priorities. We look forward to continued progress over the rest of the year. And with that, I'll ask the operator to open the floor for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is coming from Chris Giovanni with Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

I guess, first question just on Health. Obviously, there's a lot kind of going on with reform and moving pieces. And just wanted to kind of get your assessment of this business in terms of continuing to be kind of a specialty focus for you guys or what other opportunities you would consider with that segment?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. So let's go back to when the Affordable Care Act was passed. We evaluated options for the business and concluded our best option was to modify our strategy, focus on affordability and choice, and, quite frankly, I think we've been very pleased with our results today. We said that things were going to be somewhat discontinuous on the results side because the Affordable Care Act provisions would come in over time. But we still feel very positive about where we are in that progression. The sales are up quite a bit, which shows that our product suite is resonating with buyers. And I think the other thing we said is we believe that once all reform is through, and that really won't be done until the end of '14, we're going to have a business that we think we can grow and we think we can earn attractive returns in. And I would say, to date, we are pleased with the results. Remember, in this business, this is not a capital intense business, and so the returns we need to earn on the capital base can produce quite good returns in this segment. And I think we feel quite good about where we are.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then on the debt offering, I mean, obviously, you have a fair amount of capital already, and you're putting some of that to work here in April. I guess the incremental $200 million of debt, recognizing sort of opportunistic in terms of the cost of that, but how should we be thinking about the avenues you're exploring to kind of put that debt to work?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. Let me make a couple of comments. I'll turn it over to Chris. I think we've demonstrated that we are very disciplined in our approach to capital management and take deployment very seriously. We obviously had debt that matures in 2014 and we needed to look at how we deal with that going forward. Chris, maybe you can provide some perspective on that.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, Chris. I think I guess the important point to make here is nothing's really changed with respect to our strategy around capital. As we mentioned in the remarks earlier, the incremental $200 million is not leading to an increase in our after-tax interest expense, so there's no expense-related component of having the extra debt. We have talked about having extra -- the opportunity put on incremental leverage. We saw an opportunity in the market. We felt like we got some very long-term attractive yields on the debt. But I don't think -- and as Rob mentioned, we're going to continue to be disciplined. We have deployable capital in the form of cash on the balance sheet. We've got operating earnings that we believe we can get at over the course of the year. So tremendous amount of financial flexibility. In terms of deployment, again, the priorities haven't changed, capitalize the operating companies, look for profitable growth opportunities either organically or through M&A and return capital to shareholders, which we've demonstrated that we're willing to do over the last several years. And given where the stock is trading right now, we believe it's very attractive and that it continues to be a prudent use of our deployable capital. So again, those are messages that we have reiterated over the last dozen or so quarters, and it continues to be our strategy going forward.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. So it'd be sort of opportunistic around kind of the price versus sort of an imminent need to kind of do a transaction or anything like that at this point?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Again, I think again, we looked at the market at the time we felt like there was an opportunity to put some modest leverage at no incremental cost in terms of interest expense and view that capital as another -- just additional amount of capital on the balance sheet for deployment.

Operator

We will take our next question from Seth Weiss with Bank of America.

Seth M. Weiss
BofA Merrill Lynch, Research Division

I want to ask a few questions on Specialty Property and what guidance contemplates in terms of rate action, just to get clarity on that. So if you have 28 states with new product filed and you have rate reviews coming up in New York and Florida, if we look at the guidance that you have in place right now for modestly rising premium increases, where does that contemplate in terms of all those moving parts?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, we've certainly factored the change that went into effect in California. We have rate discussions as a normal course in many states. Those are sort of state-specific. I think the important thing is we try to balance all that we know about volume growth from new loans, rates, various other factors. All those things go into our overall outlook that revenue is going to be up a bit this year.

Christopher J. Pagano
Executive VP & Chief Risk Officer

And I'd just add to all of that, what Mike said, we filed in each of the states. We certainly have tried to reflect the experience of the states, which in some cases means there were probably modest declines that were filed through in some of those states. But a key component, Seth, is who actually ends up with our product, and that's something that changes over time. We've seen that over the last few years.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay. And just in terms of Florida, I think this is the one that a lot of us are specifically watching out for. I believe you filed for a flat rate in your March filing. That's obviously different than what QBE was eventually able to push through on their side. I know it's a little bit of a different situation, but curious if you could just sort of comment on QBE's eventual 19% rate decline there versus what you filed with.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, yes. Sorry, we really can't comment on QBE's filings. What we do, as we do in every state, is go through a lot of actuarial analysis around the specifics of our exposure and the various components of our rate filings until we feel good about the rates we filed for. We've seen over time when we've acquired new loans that our rates in Florida have been quite competitive in the marketplace. So overall, we certainly will be going through the review process with Florida, but we feel like we've given a very -- we have a very solid analysis behind our filing.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay. And then just one more, if I could, and this is just a sort of a numbers question. If we think about how much has been filed and approved for versus what's still in the pipeline with -- I believe about 14 states still in the pipeline and, of course, New York and California. In terms of the total premium base, how much of that rate is now sort of more in a final state versus how much more will be pushed through the next couple of quarters if we think about in terms of the premium base?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, I guess a couple of points here I think that we've said. We're not done in Florida; Florida is our biggest state. New York is a sizable piece of our volume, as well. But I think the other key thing is -- implementation is the key here versus approval because there's a lot of work required to be able to administer these new rates across a servicer's portfolio and provide them with the flexibility our new product provides. So again, we have to do that in stages, and we're going to introduce those additional states in the second quarter. We plan to have them all done by the end of the year, and as we pointed out previously, we think our revenues will be up during 2013.

Operator

And we'll take our next question from Mark Finkelstein with Evercore Partners.

A. Mark Finkelstein
Evercore ISI, Research Division

Just going back to Health. I guess the question is you alluded to focusing on pretax as a gauge for the earnings. I'm trying to understand that comment in the context of, does something structurally happen beyond '13 that maybe mitigates the longer-term impact of this tax impact -- tax implication?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I think what I was trying to get at, Mark, is when you think about the effective rate for the tax rate for the business, you really sort of think about a couple of things. One is the pretax earnings and then, what are the non -- the expenses that are nondeductible under the Affordable Care Act. And while pretax earnings are lower than ultimately they will be once the business is through the reform transition, the effective tax rate will be lower at that point. So that's why we really think pretax is a good -- a better gauge in the near term, as opposed to saying after-tax with these very high effective tax rates that we're reporting.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

So -- and just to add to what Mike said. If we think about this a little bit, our sales are up, but we're still seeing a decline in year-over-year premiums. We think that -- we're optimistic we can get that to shift. We think when all the provisions are implemented, the market will grow. And therefore, right to what Mike said, we're going to have the opportunity to increase our pretax earnings, which will help alleviate this whole issue.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay -- so the takeaway is that there's nothing that structurally or otherwise can be done to moderate this, I don't know, $4 million, $5 million impact a quarter other than growing into this bigger knot.

Robert B. Pollock

Former Chief Executive Officer and Executive Director

We've chosen to illustrate it in the Health segment. If we were an all health company, it would be spread over the whole thing. We could've spread it over all our segments. We just happen to put it in Health.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

But that is -- we are applying the provisions of the Affordable Care Act, Mark. So there will be this element of nondeductible expenses. And as Rob said, I do want to emphasize that if we were entirely a health company of our same overall size, the effect of this would be much less noticeable because it adds -- I think if you think about our corporate effective tax rate overall, this adds somewhere in the vicinity of 50 basis points or 50 to 100 basis points or something like that. But we choose for, just to give you a better insight, to sort of apply the whole cost of that in the Health segment.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. So this doesn't in any way change your view of the business model going forward in terms of participation in exchanges, continuing to offer major medical versus the affordable product, et cetera?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

That's correct. We think it's an attractive market. We think it will grow and, again, we'll point out again the capital requirements in this business are not that much.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. Just my final question is can you just talk a little bit about the Employee Benefits segment? Earnings were a little bit soft, expenses high. What's the outlook on this? Is there anything in the quarter that we should be paying attention to outside of the discount rate adjustment?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, as we commented, our life mortality was high and we see that periodically. Mortality on a life block of our size can vary so we had a fair amount of life claims in the quarter. I don't infer any kind of a trend for that. Dental, we continue to be very pleased with the earnings and the growth in that product. The other thing I think actually expenses for benefits are -- they're pretty carefully managed there. You're seeing a little bit of impact on the expense ratio because of the continued impact of we lost a couple of large disability clients that we've talked about in the past that -- so the top line is suffering the impact of that, which affects the expense ratio. But overall, we expect life to normalize. We continue to think dental is going very well. Voluntary sales are growing. So lots of reasons to feel optimistic about Benefits outlook.

Operator

And we'll take our next question from John Nadel from Sterne Agee.

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

I have a question. A little bit following up on Seth's question on the premiums that have been -- that you expect anyway to be approved or to be rolled out through the 28 states by the end of the second quarter. I'm just wondering if you can give us some help, I mean, without specifically knowing what servicers are going to choose to do with the more flexible product. If we just look at it on your premium base today, about what percentage of your premiums is reflected with these 28 states?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

As we mentioned in the fourth quarter, we started with smaller states. I think that continued, and, John, you know that our biggest states are pending, clearly Florida. That all being said, I think that we'll have them all implemented by the end of the year. I think that we'll have resolution on where we are in Florida by the end of the second quarter. And we'll be able to provide more fuller details as the market unfolds. In terms of provisions with servicers, one of the great things about the new product is it affords servicers choices, and we're going to have to see how those unfold. It also provides us with the capability to handle things that are contemplated both in the New York settlement and the FHFA. Last thing I'd just say there is the servicers do a lot of things around the process, including performing important billing and collection features. So we'll work with them as this all works through to provide a smooth transition to everyone involved.

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

Okay. And I have a hypothetical for you. The New York settlement is obviously saying no more of these reinsurance or coinsurance arrangements with the lenders or servicers. The FHFA seems to be moving in that direction. And obviously, New York is lobbying hard every other state to incorporate a couple of these items, including that elimination of the sharing of premiums, I guess they call it. To the extent that, that gets passed all the way through, in your entire book you're no longer able to share those premiums or coinsure with your servicers, how much premium comes back from that? Because I know you comingle that amount with the flood program with the government, and it's just we don't know what portion relates to the lender-placed business. Can you give us some help on that?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. Well, first, we only have, as we've mentioned previously, reinsurance with that small handful of clients, okay? It's full risk transfer that they participated in. So I'll let Mike amplify, but this will have implications on capital requirements in the business. It's a subset of the total you've mentioned, John. And Mike, you just want to talk?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Really, we haven't chosen to break that out, John, and I think once all these regs come clear, it will play out.

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

Okay. And is it enough in terms of dollars of premiums that if this did play out that way and you recaptured all those premiums, is it enough that it would perhaps change your reinsurance program significantly? I mean, I assume there's still more than enough capacity from a pure sort of catastrophe reinsurance program perspective that this wouldn't really be a problem.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Chris, you want to comment on that?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. I think from the perspective of the program, I don't anticipate this leading to any changes in how we structure our program, and we'll comment more on that in the second quarter once we finish the placement. But as Mike mentioned, this would affect our capital holding. We would need to hold incremental capital at the property segment, kind of the rule of thumb is 50% of premium. And again, as this unfolds, we'll adjust accordingly.

John Matthew Nadel

Sterne Agee & Leach Inc., Research Division

But it's fair to assume that -- I mean, if you're -- if this is really true full risk transfer, then, frankly, your margin on those premiums that you recapture shouldn't really change, correct?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

That's correct.

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

Okay. Last question for you is this. I mean, you touched on a little bit in terms of pay is to buybacks earlier and, obviously, a ton of capital flexibility. I know we've got a reset over time on the size of the Specialty Property business, but can you help us with some insights maybe into how you and the board have thought about or discussed dividend policy? Because it seems to me that there's a real opportunity at Assurant to create a -- well, I guess I'll say it this way more succinctly, to put a significant yield on the stock that can very well be supported by free cash flow, even if or even when Specialty Property earnings reset lower.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Okay. So the first thing is we've increased our dividend every year since we've been a public company, and I believe when we first went public, that dividend was $0.07 a quarter. It's now $0.21 a quarter. I think if you look at all the players in the financial services area, we're one of a small handful who've increased their dividend every year. So we've not been shy about increasing our dividend over time. Chris, you could just elaborate on how you view the use of cash dividend versus other deployment.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, sure. And again, John, just another comment on the dividend policy. That is typically, per policy, we have that conversation in the second quarter with the board. We're going to have to do that in the upcoming meeting. Other alternatives, a one-time special dividend is certainly out there, might have some short-term benefit but our capital management policy is focused on the long term. And when we have the opportunity to repurchase stock at a 15% discount to book value, which is roughly where it's trading right now, we think that's the better use of deployable capital and will contribute to long-term -- the growth of long-term shareholder value. So we consider all of the things that you're talking about. We feel very comfortable, though, with our policy at this point. And again, we believe the stock's attractive and have been back in the market and continue to believe it's a good use of the capital we have at the holding company.

Operator

And we'll take our next question from Sean Dargan with Macquarie Securities.

Sean Robert Dargan
Macquarie Research

I have a couple of questions about Specialty Property. First, the uptick in the expense ratio, which you attribute to the new loan portfolios, is that kind of a run rate expense ratio we should expect throughout the rest of the year?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, there's a lot of expenses associated with onboarding the loan, Sean, and we've got a couple of things going on, just adding the loans, getting them onto the system, and then you've got -- going forward, you've got the service requirement for those. And we're certainly committed to maintaining the highest levels of service that we've had in the past, so that requires a certain amount of staff to do that. We have a very sophisticated system that helps us in this. So there's -- they're not all purely variable cost, but there are certainly some of those, and we want to be sure that we're maintaining our customer service levels.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

And some of those expenses come before the premium shows up. And that's always been how this business has worked and I think will continue to. So these portfolio additions are not coming from existing clients, which is a little bit different than if they come from someone we have already. There's expenses if we lose from one of our clients but it goes to another. We know all the processes, procedures. We know something about the loans. When they come from a portfolio we don't have, there's more work involved.

Sean Robert Dargan
Macquarie Research

Okay, that's helpful. And then I guess why did net written premiums and gross -- or I'm sorry, gross written premiums and net earned premiums decline sequentially? I would have thought, given the onboarding, that, that line would have ticked up?

Christopher J. Pagano
Executive VP & Chief Risk Officer

The onboarding, the reason -- the premium results can sort of vary as you're adding loan portfolio, Sean, because it depends on whether the loans are flat canceled versus coming on at renewal. And so when -- and also since our coverage is effective when the date of prior policy, the voluntary policy lapse. Sometimes you get extra premium when it comes on board, which distorts the quarterly pattern of premiums.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

But we add that over time. And I think one of the things to remember is we've added 1.7 million loans that you see in our totals here that have not yet produced premium but will later in the year.

Operator

And our next question comes from Mark Hughes with SunTrust.

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

Along that same line, the 900,000 loans that you're going to be bringing on, are those going to be flat canceled?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, they are.

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

Okay. And then in the voluntary business, you've had a couple of very strong quarters in a row. What is the sustainability of that? Is that because the brokers are charged up to sell those products? Is there underlying demand that is that strong? What's happening there?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Well, we think that to those couple of things. One, I would say that our brokers are, in fact, more interested in voluntary because a lot of this is driven by the continued and sort of relentless increase in medical costs, which have small employers and brokers actually more interested in the voluntary benefits or the voluntary platform as a way to provide their employees with a good solid benefit package. And we really think that in addition to having a broad product suite, we have the system's capabilities and the technology to interface with the employer systems to make voluntary a very easy to offer package for small employers because one of the real challenges in the voluntary business is the administrative complexity of it. And we think that's where we have a better mousetrap. And I think that's starting to resonate in the market.

Operator

And we'll take our next question from Steven Schwartz with Raymond James & Associates.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Going back on -- actually, the last 2 questions were kind of what I wanted to get to. The growth in the loan's track of Specialty Property in the quarter was substantial, more than I was expecting. That increase came from where?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, we added 1.7 million in the quarter. I think we had talked about 1.3 million. We had another 400,000 that came in and then we had the 900,000 portfolio that Rob alluded to in his prepared remarks.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

And just remember that we have not had premium on those loans yet come through.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. And then I'm getting a little bit confused here. Flat cancel, they cancel and give them to you; is that accurate?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. I mean, look, in essence, the policy and new offering will go out. We'll have to make sure that they don't have coverage elsewhere. And if that's the case, then we will start earning immediately.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

So -- but you just told me you weren't earning immediately.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, that's right. That's because we have included the things. But we've got to run things through our latter cycle so we know that those loans are there, but they've got to run through our latter cycle. We have to verify that they don't have coverage elsewhere. And when that happens, we'll start earning the premium.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. So the new loans do not affect your -- they artificially lower the placement rate; is that an accurate statement?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

No. We've adjusted for that in the rate we've provided, yes.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. And then the placement rate on the new 900,000? Would you say that...

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Those are coming from clients where we don't really have a line of sight, Steven. So we'll onboard them, and once we've done that, we should have a line of sight on what will happen.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. And then on the discount rate adjustment and Employee Benefits, the drag on earnings from that was how much in the quarter?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

It's about $1 million.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

About $1 million. Okay.

Operator

We'll take our last question from John Hall with Wells Fargo.

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

I have a sort of a longer view question and something that I've been wrestling with as I look farther out '13 into '14, is really how to understand the rate at which the placement rate ultimately comes down on the Specialty Property book of business. I guess it was 2.89% this quarter, up by as a result of the new loans brought on. But how should we think about -- as the real estate market recovers, is there any sort of period in time historically that you can point us back to, where you've got some data that says as foreclosures improve, and the like, the rate came down from X to Y over some period of time.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. So if you go back and look at our 2011 Investor Day, we tried to provide some insight into that, John. I would say at that point in time, we thought it would be over a 5-year period, and you'd see placement rates trend back to 2006 levels, okay? Now what's changed since then? Because there's a couple of things here that in my mind are macro factors that are difficult to predict. And one is unemployment in the economy and as that remains elevated, I think placement rates stay up. I think a second is the number of seriously delinquent loans, some of which just relates to government policy and how they want to deal with those things. There have been a lot of policy around preventing foreclosure. I don't think we could've foreseen that. I think that's probably kept our placement rates up a bit too. I think the other one we're seeing that we didn't at the time, however, is also how voluntary carriers are dealing with their business in CAT-prone areas. Because we do have an overrepresentation in the CAT-prone areas because often coverage isn't available. So I think those are 3 factors that are driving things. I'd also point back to the comment Mike made, which is if you took out those loans we didn't have in 2012, our placement rate was down modestly in the quarter. And so we are seeing signs that, that it's happening and we expect it will happen as the economy improves.

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

I guess as we think about what you provided back at the Analyst Day, that 5-year time frame, is that still the time frame over decline that you'd be thinking about now?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, I haven't been very good at predicting this, John, so let's start with that. To me, it's been up and I think one of the reasons it's up is that last factor I brought up. And so I think it's very difficult for us to be able to assess how it will come down. But the other way I look at that is we've also added quite a few loans to the portfolio since we rolled that information out.

Great. I want to thank everyone for joining us this morning. We look forward to updating you on key milestones in the months ahead. And please feel free to reach out to Francesca and Suzanne with any additional questions you might have.

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