S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

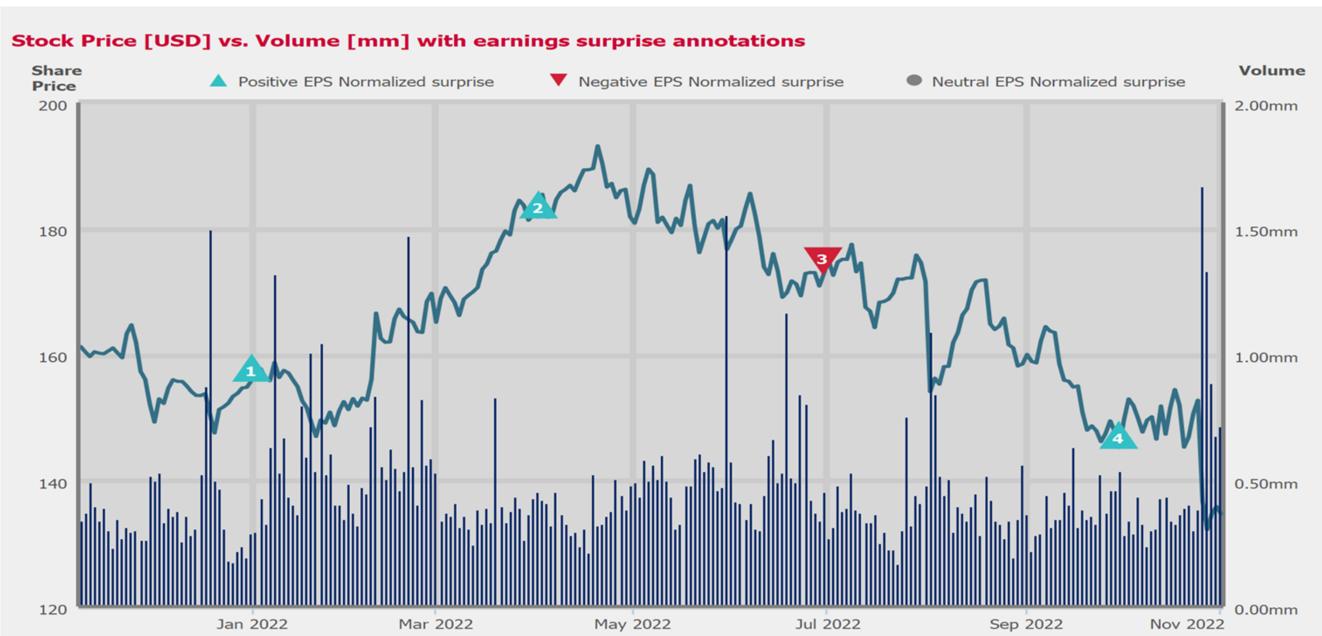
FQ3 2022 Earnings Call Transcripts

Wednesday, November 2, 2022 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.00	1.01	1.00	2.98	11.17	NA
Revenue (mm)	2603.32	2547.80	(2.13 %)	2657.76	10279.98	NA

Currency: USD
Consensus as of Nov-02-2022 3:53 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	2.31	2.47	1 6.93 %
FQ1 2022	2.80	3.75	2 33.93 %
FQ2 2022	3.22	2.95	3 (8.39 %)
FQ3 2022	1.00	1.01	4 1.00 %

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Call Participants

EXECUTIVES

Keith Warner Demmings
President, CEO & Director

Richard Steven Dziadzio
Executive VP & CFO

Suzanne Shepherd
Senior Vice President of Investor Relations & Sustainability

ANALYSTS

Gary Kent Ransom
Dowling & Partners Securities, LLC

Grace Helen Carter
BofA Securities, Research Division

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

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

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

Presentation

Operator

Welcome to Assurant's Third Quarter 2022 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 2022 results with you today. Joining me for Assurant's conference call are Keith Demmings, our President and Chief Executive Officer; and Richard Dziadzio, our Chief Financial Officer.

Yesterday, after the market closed, we issued a news release announcing our results for the third quarter of 2022. The release and corresponding financial supplement are available on assurant.com. We'll start today's call with remarks from Keith and Richard before moving into a Q&A session.

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

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

I will now turn the call over to Keith.

Keith Warner Demmings
President, CEO & Director

Thanks, Suzanne, and good morning, everyone. As we previewed last week, our third quarter 2022 results came in below our expectations. This reflected a more challenging macroeconomic environment and lower contributions from Global Lifestyle. Following a very strong first half of the year, where we grew Lifestyle adjusted EBITDA by 14% year-over-year, this quarter had more significant headwinds internationally, including unfavorable foreign exchange, a modest uptick in claims and lower Connected Living program volumes.

While disappointing, our results don't change our view of the inherent growth momentum in the Lifestyle business. We believe the actions we're taking to drive additional expense savings will also better mitigate potential further deterioration in macro conditions. Looking at Global Housing, the segment's performance was in line with our expectations for the quarter. We're pleased with the progress we've made in not only increasing revenues through higher average insured values and rates but also the transformation actions we've taken to simplify the business and drive future growth.

Looking at the year-to-date performance through the first 9 months of 2022, Assurant's reported adjusted EPS of $10.05 is up 7% for last year, and adjusted EBITDA of $832 million is down 4%, both excluding reportable catastrophes.

As we evaluate our progress this year, we continue to believe we have a compelling strategy, strong fundamentals and momentum with clients as we continue to align with leading global brands and maintain market-leading positions across our key lines of business. For example, we announced a further multiyear extension of our long-standing partnership with T-Mobile. This important contract extension provides us with increased long-term visibility in our U.S. mobile business.

At the same time, it gives us greater opportunity to increase repair volumes through our over 500 cellphone repair locations with the ability to leverage this capability with other U.S. clients. We've also made investments to support our product development around the connected home, and we continue to engage in encouraging dialogue with key clients, creating a long-term opportunity for growth. This also included supporting our largest U.S. retail client with the expanded relationship we announced earlier this year. While macroeconomic conditions in Europe are challenging, we continue to win new opportunities and recently expanded our global partnership with Samsung to launch Samsung Care Plus smartphone protection in 6 major European markets. We now offer this solution across 3 continents.

This momentum, combined with our partnerships with well-positioned global market leaders, should help us outperform through an economic downturn.

Turning to Global Housing. We've already begun a comprehensive transformational effort to position the business for long-term success, and we're pleased with our progress. Consistent with our practice of actively managing our portfolio of businesses and reviewing it for strategic fit, in addition to exiting commercial liability, we're eliminating our international housing catastrophe exposure. We don't see these businesses as core to our strategy or a path to leadership positions.

As we execute these changes, we're designing a new organizational structure for Global Housing to better manage our risk businesses from our capital-light oriented businesses as part of our transformational agenda and also to realize greater efficiencies. We're finalizing our plans for implementation in 2023. As we reflect on Assurant's overall results to date and current market conditions, we now expect 2022 adjusted EPS, excluding catastrophes, to grow high single digits from $12.28 last year, driven by share repurchases and Global Lifestyle growth.

For the full year, we expect adjusted EBITDA, excluding catastrophes, will be down modestly to flat with 2021. This will be driven by high single-digit adjusted EBITDA growth for Lifestyle, even with additional macro headwinds. In fact, on a constant currency basis, we expect Global Lifestyle to finish 2022 aligned with our original Lifestyle expectations of low double-digit growth.

In Global Automotive, we still expect to outperform our initial expectations, driven by tailwinds from investment income and underlying growth in the business as we expand share with clients and add to our 54 million protected vehicles.

For 2022, we continue to believe Global Housing will decrease by low to mid-teens, but we're pleased to see the initial improvements in our underlying results. From a capital perspective, we remain good stewards. Year-to-date, we have returned a total of $667 million of capital to shareholders, including proceeds from the sale of Preneed. And by year-end, we expect to close 2 small acquisitions for a total of approximately $80 million. These deals will strengthen our position in commercial equipment with attractively priced assets and minimal integration effort. Looking ahead, given macroeconomic volatility, we will exercise prudence in the near-term relative to capital deployment so that we can maintain maximum flexibility to continue to support our organic growth.

This doesn't change our conviction of the strong cash flow generation of our businesses, nor our view of the attractiveness of our stock but rather as a reflection of the uncertain macro environment. As the broader environment begins to stabilize and visibility improves, we'll evaluate capital deployment to maximize shareholder value. Looking to 2023, we are confident in the growth of our businesses. We expect both our Global Housing and Global Lifestyle adjusted EBITDA, ex cats, to increase year-over-year. To that end, we're taking decisive actions to mitigate headwinds while we maintain our relentless focus on growth.

The Global Housing business is poised to grow in 2023, and we started to see evidence of that in the third quarter as rate increases flow through the book. In the long-term, the business should provide downside protection if we see a further deterioration in the U.S. economy.

We believe Global Lifestyle is positioned to grow in 2023. This is based on expectations of continued strong underlying growth momentum, even while factoring in lower international business volumes and increasing claims costs. We have also started several initiatives across the enterprise to drive greater operational efficiencies and leverage our economies of scale. We're now pushing even harder to realize incremental expense savings given the increasingly volatile market.

We expect to finalize plans in the months ahead so that we can implement in 2023 and beyond. This includes optimizing our organizational structure and best aligning our talent, leveraging our global footprint to reduce labor costs where possible, continuing to review our real estate strategy, recognizing we have an increasingly more hybrid workforce and accelerating our adoption of digital solutions. Our digital-first strategies are yielding positive results in 2022, both in terms of delivering better customer experiences and meaningful savings. As part of our 2023 planning, we're taking steps to accelerate digital adoption and automate processes which will further reduce cost and improve the customer experience. We're also applying the same principles to drive greater automation and self-service throughout our functional areas.

With this in mind and considering how the overall business environment has changed, we are reevaluating our long-term financial objectives shared at Investor Day. In February, we expect to share our 2023 outlook, also factoring in the most recent business trends and macro environment. This in no way changes our view on our business advantages, leadership aspirations or long-term growth potential. We continue to be well-positioned with industry-leading clients as we focus on key products and capabilities where we have market-leading advantages. We believe we have a compelling portfolio of businesses poised to outperform as we deliver on our vision to be the leading global business services provider supporting the advancement of the connected world.

I'll now turn the call over to Richard to review the third quarter results and our revised 2022 outlook in greater detail. Richard?

Richard Steven Dziadzio
Executive VP & CFO

Thank you, Keith, and good morning, everyone. Adjusted EBITDA, excluding catastrophes, totaled $240 million, down 11% from the third quarter of 2021. Our performance reflected weaker results in both Global Housing and Global Lifestyle. For the quarter, we reported adjusted earnings per share, excluding reportable catastrophes, of $2.81, down 8% from the prior-year period.

Now let's move to segment results, starting with Global Lifestyle. This segment reported adjusted EBITDA of $166 million in the third quarter, a year-over-year decrease of 6%, driven primarily by Connected Living. Excluding an $11 million onetime client contract benefit in Connected Living, Lifestyle earnings decreased by $22 million. The Connected Living decline of $18 million was primarily from 4 factors: First, $7 million of unfavorable foreign exchange, mainly from the weakening of the Japanese yen; second, lower margins in our device trading business from lower volumes.

However, this is expected to improve starting in the fourth quarter which we have already seen in October; third, our extended service contracts business was impacted by higher claims cost from wage and materials, and we did make some additional investments in Connected Home; and lastly, softer international volumes for mobile, particularly in Japan and Europe. The decline was partially offset by continued mobile subscriber growth in North America device protection programs from carrier and cable operator clients.

In Global Automotive, earnings decreased $4 million or 6%, primarily from lower investment income and higher losses in Europe.

Turning to revenue. Year-over-year, Lifestyle revenue was up by $29 million or 1%, driven by continued growth in Global Automotive. Global Automotive revenue increased 9%, reflecting strong prior period sales of vehicle service contracts. On a year-to-date basis, our net written premiums in auto were down 2%, demonstrating the resilience of the business relative to the broader U.S. auto market which contracted at a faster pace.

Within Connected Living, revenue was down 4% year-over-year due to lower revenue in mobile, mainly from premium declines from runoff programs and unfavorable foreign exchange. This was partially offset by growth in subscribers in North America. In the third quarter, we serviced 7.1 million global mobile devices supported by new phone introductions and carrier promotions for the growing adoption of 5G devices.

For the full year 2022, we now expect Lifestyle adjusted EBITDA to grow high single digits compared to 2021, led by double-digit mobile expansion and Global Automotive growth. Earnings in the fourth quarter should grow year-over-year, mainly from growth in Connected Living.

Moving to Global Housing. The adjusted EBITDA loss was $25 million, which included $124 million of reportable catastrophes. As a retention level event, Hurricane Ian was the primary driver of reportable catastrophes in the quarter along with the associated restatement premiums. Excluding catastrophe losses, adjusted EBITDA was $99 million, down $18 million or 15%. The decrease was driven primarily by approximately $38 million in higher non-cat loss experience across all major products, including approximately $24 million of prior period reserve strengthening.

Lender-placed earnings were flat as elevated loss experience and $13 million of higher catastrophe reinsurance costs were largely offset by higher average insured values and premium rates. The placement rate increased 9 basis points sequentially, mainly from client portfolio additions having a higher average placement rate. The increase is not a reflection of a deterioration in the U.S. mortgage landscape.

Multifamily housing increased non-cat losses, including some reserve strengthening and an increase in expenses from ongoing investments to expand our capabilities and strengthen our customer experience resulted in lower profitability. Global Housing revenue increased 3% from growth within several specialty offerings as well as higher average insured values and premium rates in lender-placed. This was partially offset by higher catastrophe reinsurance costs noted earlier from Hurricane Ian.

For the full year, we expect Global Housing adjusted EBITDA, excluding cats, to decline by low to mid-teens from 2021 with an increasing benefit in the fourth quarter from higher AIVs and rate. We're also evaluating our catastrophe reinsurance program as we approach the January 1 purchase to ensure we optimize risk and return. This may include increasing our retention level, reflecting the growth of the book of business stemming from inflation. In the meantime, we believe the implemented rate adjustments will result in higher premiums that can help to mitigate the increase in cat reinsurance costs.

At Corporate, the adjusted EBITDA loss was $25 million, up $2 million, driven by lower investment income. For the full year, we continue to expect Corporate adjusted EBITDA loss to be approximately $105 million.

Turning now to holding company liquidity. We ended the third quarter with $529 million, $304 million above our current minimum target level. In the third quarter, dividends from our operating segments totaled $143 million. In addition to our quarterly corporate and interest expenses, we also had outflows from 3 main items: $80 million of share repurchases, $37 million of common stock dividends and $6 million mainly related to Assurant Venture investments.

For the full year, in addition to the $365 million of Preneed proceeds, we expect incremental share repurchases to be on the lower end of our targeted range of $200 million to $300 million. As always, segment dividends are subject to the growth of the businesses, investment portfolio performance and rating agency and regulatory capital requirements.

Turning to future capital deployment. Our objective continues to be to maintain our strong financial position while continuing to invest in our future organic growth. However, given the interest rate volatility and uncertain global macro environment, we plan to be prudent relative to capital deployment in the near future.

In conclusion, while our third quarter results were disappointing, we are confident that our fourth quarter results will improve. And with the additional actions we are taking to grow the top line and leverage our expense base, we are positioning ourselves for growth into 2023.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Mike Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess I want to touch on the comments on 2023. You mentioned you expect growth in both segments, as I compare that to the stuff you gave in February, where you were pretty specific with the financial objectives of -- you gave certain numbers by segment of EBITDA growth.

Here, you were -- I believe you said you want to reevaluate that. And it sounds like you're also expecting a Lifestyle continue to higher claim cost. So kind of want to kind of marry those and make sure we're not reading too much into your wording of reevaluating 2023 growth as compared to your objectives before.

Keith Warner Demmings
President, CEO & Director

Okay. Yes. Maybe I can try to tackle that a couple of ways. So if you think about the outlook for 2022, if we just start with that, obviously, we're below what we expected originally from Investor Day, largely driven by the decline in the housing business as it relates to inflation, which we talked a lot about last quarter.

We had also expected Lifestyle to even outperform our original expectations. When we think back to where we started the year and kind of what we signaled last quarter, obviously, we saw a softer Q3 in Lifestyle. We still expect Lifestyle to generate strong growth as we think about 2022. So we talked about high single-digit growth in Lifestyle, but that's overcoming relatively significant foreign exchange rates.

If you think about constant currency basis, we expect to be in the low double-digit range, which was underpinning our Lifestyle Investor Day commentary. I would say that because housing is behind and Lifestyle is sort of in line, but not outperforming as significantly as we had hoped last quarter, and we can talk about the third quarter. We've said it's prudent for us to close the year, evaluate how we finish, look at the trends as we think about '23 and '24. There's a tremendous amount of turmoil in the global economy and the macro environment.

So trying to make sure we take all of that into account, set our outlook for 2023 that will also be based on the expense actions which we're taking in the fourth quarter. We do expect international softness to continue. I think foreign exchange will be a pressure. Claims costs are rising, not a huge part of the Lifestyle story, but still important. We're trying to take expense actions to offset that pressure and I think prudent for us to revisit and think about those longer-term commitments to make sure that we're being as transparent as we can with the market.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. I think that makes sense. I guess, when you looked at the -- in this quarter, one of the segments in the Lifestyle was the mobile margins, and you talked about how that's not going to continue and kind of revert, I guess you mean in the fourth quarter. Can you talk about why that is?

Keith Warner Demmings
President, CEO & Director

Yes. So there's a couple of things. If I think about the third quarter for Lifestyle, we certainly expected results in the third quarter to be lower than what we saw in the first half. So that wasn't surprising. But obviously, they came in even lower than we were expecting.

Maybe I'll unpack why we would have thought they would have been lower to start with and then what happened in the quarter. So I would say, as we thought about Q3, we knew there'd be more losses in mobile from seasonality. We tend to see higher claims in the summer months, particularly for the clients where we're on risk. So that certainly happened and we saw an elevated level of claims beyond what we were expecting in the third quarter.

If you think about the first half of the year, we saw tremendous favorability around mobile losses. So frequency of claims is lower than historic levels. We've done a really good job managing severity, a lot of efficiency in our supply chain, but also leveraging walk-in repair as well to drive down severity of claims. And we thought that, that positive trend line would continue in third quarter. There's a little bit of a reversal, mainly around the cost of acquiring devices when we had to do replacement devices and just the sort of the mix of inventory that we had. We expect to see that normalize more into the fourth quarter and beyond.

When I think about mobile losses year-to-date, pretty in line with what we would have expected at the beginning of the year, very much in line with what we saw in 2021. So choppiness between really strong favorability in the first half and then some softness in the third quarter.

We also saw accelerated investments around the Connected Home in Q3, which we knew would continue. And we had some favorability in the first half with investment income in auto, which we knew wouldn't continue. So we certainly expected Q3 to be down, but in terms of the miss to our expectations, I would say 50% of that miss is broadly international, a combination of FX and softer volumes in a softer economy, particularly in Europe and Japan. And then about half of it was domestic trade in margins, which was probably more of a timing point in terms of devices being delayed to be received in our depots, and that will reverse itself in the fourth quarter.

I talked about the mobile losses being another driver. And then we saw a little bit of loss pressure on the [ESC] portfolio, not a huge number, but certainly, there's inflation in the system, and that's flowing through.

Operator

Your next question comes from the line of Tommy McJoynt from KBW.

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

So just maybe stepping back a little bit and thinking from a high level, just thinking about the step down, I guess, in this year's guidance from perhaps like a 6 months ago back in May, we've seen kind of 2 sequential steps down. So can you just kind of frame how much of that step down has come from -- is expected loss cost, the claims inflation side versus perhaps just a lower demand for your products and services, I guess, over in Europe and then a little bit domestically? So if you were just trying to bucket into those 2 categories, the step down in guidance over the year, how would you do that?

Keith Warner Demmings
President, CEO & Director

Yes. I think when we sat here at the end of the second quarter, we certainly saw pressure in the housing business, no question. That was the driver of the step down last quarter, offset by really, really strong first half. We think about Lifestyle record year in 2021 and then an incredibly robust first half. We projected that trend line would continue and that favorability would continue. I'd say the adjustment that we're talking about now is entirely sort of backing out that favorability for the full year from Lifestyle. So Lifestyle, like I said, it's going to come in very much in line with our original expectations from Investor Day from the beginning of the year, and the real impact is FX.

If I think about Lifestyle overall, I would say, domestic Connected Living will finish the year very much in line with what we had expected. So a really strong year, really robust growth. Global Auto will be ahead of what we originally expected, mainly driven by investment income, which we've talked about being a nice tailwind for the auto business. That favorability in auto, I would say, offset by softness in underlying international business results, mainly in Europe, a little bit of pressure in Japan.

And then we've got FX layered on top of that. But again, ignoring FX, pretty much in line and I'd say auto outperforming and offsetting softness internationally. And then housing is very much in line with expectations. If we think about what we expected in the third quarter, housing came in very much in line. We've made tremendous progress to transform housing. We've reacted with urgency. I'm really proud of the way the team has come together.

We've simplified the focus. You saw the exit of sharing economy. We've signaled the exit of international housing-related cat business. We're implementing a new org design to delineate between our housing risk and capital light to increase our focus, drive even more efficiency. And then just a tremendous amount of work on offsetting inflation, not just with expense discipline and prudence, but the work with AIVs that has started to take hold a little bit this quarter. A lot of progress on rate, 31 approved rates with States that are implemented in '22, several more for early '23.

So just a lot of progress there, and I'd say housing pretty much in line as we think about what we said last quarter.

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

And to follow up on that, what gives you guys confidence that some of the weaker pressures over in Europe and Japan might not spill over into the North American side?

Keith Warner Demmings
President, CEO & Director

Yes. We certainly expect the pressure in Europe and in Japan to continue. I would say, obviously, they're both profitable markets for us. Japan has been an incredible success story. And I think even though there's some softness in the economy, we're very well-positioned in the market, and there's a tremendous long-term opportunity for growth and our team is doing an incredible job.

So I feel really good long term about our position there. Europe is even more challenged, obviously, with the economy and with FX in that marketplace. So that -- we're seeing some softness. I think that persists and continues. We're taking actions to make sure we're simplifying our focus, rationalizing our expense base. But nothing that we're going to do is going to destroy long-term value, disrupt what we do with clients or customers.

And then in North America, we've actually seen really robust results. Our subscriber counts on mobile in North America postpaid are up sequentially. They're up year-over-year, obviously, with the T-Mobile acquisition of Sprint. But good momentum. Our clients are growing. If you think about our device protection clients in the U.S. on the postpaid side, they're gaining a lot of net adds. I think 70% of the net adds are coming through our client -- the client partnerships that we have.

So that bodes well for device protection, and then trade-in continues to be strong as there's a lot of competition in the broader market, particularly domestically.

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

Got it. And then just last 1 for me. In housing, you recorded the prior period development of $24 million but the full year guidance for housing didn't change. So was that prior period development already anticipated in the guidance?

Keith Warner Demmings
President, CEO & Director

So I think that we certainly expected higher claims cost in the quarter, and that came through in prior period development versus current accident quarter development. And maybe Richard can share some highlights on that. But I would say that the offset to the prior period development was the significance that we saw both in terms of rate, from AIVs a little bit, but mainly from all the rate adjustments that we've made over the course of last year, and then policy growth.

We've got 26,000 incremental LPI policies that came through in the quarter as well, which we can talk about. But maybe, Richard, talk a little bit about the prior period.

Richard Steven Dziadzio
Executive VP & CFO

Yes, exactly. I think you nailed it. In terms of the prior period development, obviously, when we closed Q2, we put some prior period development in and the best number and our best estimate. On the other hand, when we were looking at our outlook, we said inflation is high. Let's just assume inflation is going to stay at a very high level. So we kind of, I would say, hedged our bets in terms of where the total loss ratio could go at the end of this year, call it, not really prior period development, but just all-in loss cost.

So that came through and we're in a decent place there, and that was able to absorb some of the prior period development. Of the prior period development, I would say 14 was this year. So it's really just a movement within the calendar year and 10 for the prior years.

And then as Keith said, our premiums were a little bit better. We are seeing the AIVs, we are seeing some new business come on. And so that helped to offset any other variance with the prior period development that came in.

Operator

Your next question comes from the line of Mark Hughes from Truist.

Mark Douglas Hughes

Truist Securities, Inc., Research Division

The delay on the trade-in activity, I got some questions on that. What was the logistical cause of the delay?

Keith Warner Demmings
President, CEO & Director

Yes, at a high level, relatively simple. So a client -- we expected a client to send additional devices to us towards the end of the third quarter, and that was delayed for a variety of reasons, still to be received in Q4. So it's really just a shift between 3 and 4. And it wasn't so much the lack of volume from a margin perspective. It was the fact that we had staffed labor accordingly to be able to process and receive those devices. So there's a bit of a mismatch between the labor that we had in place in anticipation of the volume and then the volume being delayed for some logistical reasons in terms of clients getting us those devices. So something that we expect to write the ship in the fourth quarter.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

On the reinsurance, I think you had mentioned that you were looking at taking up your retention. Could you refresh me the timing of the new renewals. I think at renewals that renews at a couple of different times through the year. How you anticipate what your early thoughts are about the cost of that program for 2023 versus 2022? And then, I guess, already asked on the timing. So just timing, cost retention, if you could address those.

Keith Warner Demmings
President, CEO & Director

Sure. And maybe, Richard, you can start in terms of the timing, and then I can add some color at the end.

Richard Steven Dziadzio
Executive VP & CFO

Yes. Great. So when we think about our reinsurance program, full year this year will probably be about $190 million in total cost in it. And how are we looking at the reinsurance program? Really, we need to look at it in terms of total housing prices. Start with the total housing prices and housing prices have gone up. Inflation has been boosting them. Other factors have been boosting them. So if you think about the insurance that we put on the properties, we're putting more insurance on. And then that obviously means -- that obviously results in us needing to purchase more insurance. So really by kind of just a function of the overall book of business growing, we'll be placing more reinsurance and the premium will grow.

If you think about it having a bigger book of business and more premiums means we do have more exposure at the lower levels and a higher probability that those lower levels will be touched. So as we look at it, it's more of a proportional position that we would take and say, "Okay, well, what's the right new level for our retention?" That's why we wanted to signal that, that lower layer will probably go up.

It's just kind of a logical conclusion in terms of what's been happening in the market. I would say, as we said a number of times, we are getting rate increases. We are getting increases in average insured values. So we are getting premium increases, the rise in the reinsurance costs, and we are expecting some increase in reinsurance costs given the state of the reinsurance market. That would be an offset to some of the premium increases that we are getting. So I would say sort of logical in that sense. In terms of timing, we typically purchase about 2/3 of our reinsurance at the beginning of the year and then the rest of it at mid-year. We always look at that, that proportion could change as we get into the market and see the dynamics of it.

Keith Warner Demmings
President, CEO & Director

Yes. And maybe just 1 other comment. I think at the highest level, we certainly expect the reinsurance cost increase to be more than offset by additional rate, both from the rate increases but also from inflation guard, the average insured value increases. So even with a harder reinsurance market, we've got really strong relationships across a wide range of reinsurers.

We partnered with over 40 different reinsurers, a strong performing business long-term. We continue to simplify the portfolio, which I think helps us as we move forward. And then definitely rising costs, but we anticipate that our rate will be more than sufficient to offset that.

Mark Douglas Hughes

Truist Securities, Inc., Research Division

So it sounds like what you're seeing on rate in your judgment at this point will more than offset both the underlying inflation and higher reinsurance costs. Is that right?

Keith Warner Demmings
President, CEO & Director

That's correct. Yes. And if I think about housing, even if we just look at the third quarter, revenues are up 3% year-over-year. If you back out the reinstatement premium from the premium line, we'd be up 8% year-over-year. So we had $35 million in reinstatement premium this year and $8 million in Q3 last year. So that's pretty meaningful, up 8%.

I would say that's half from rate, very little of that is from this year's AIV. So we put the AIV increase in July. We talked about double-digit rate as a result of AIV. That's had 3 months to have an effect, right? So it's really a 24-month cycle. We renew policies over 12 months and they take 12 months to earn. We're 3 months into that 24-month cycle. So very little of the improvement is from AIV. Most of it is from all of the rate action we've taken at the individual state level and then from the policy growth that we saw in the third quarter.

So that will just continue to build and accelerate as the full effect of AIV rate comes through the program.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Your SG&A in Lifestyle was up 1 point sequentially. That number has been a little bit volatile, but any change in the economics of the agreements that you've got with the auto dealers or your carrier partners? I know you just renewed with T-Mobile. Is there maybe a little more sharing you're having to do with those partners these days?

Keith Warner Demmings
President, CEO & Director

No. So in terms of T-Mobile, you're correct. We did do a multiyear contract extension on top of the multiyear extension that we got a year ago. The deal structure has changed as we pivoted from the in-store repair to leveraging our 500 CPR stores. But in terms of the broad economics, I would say quite simply, we protected the financial integrity of the original deal that we had.

So we've restructured the way it operates, but no impact to our EBITDA expectations for that business. And then we further extended the agreement to protect that relationship over time, which is really significant in terms of giving us long-term visibility into the U.S. mobile market. So nothing there that would create any economic change to us.

In terms of the balance of clients, I'd say, tremendous momentum still commercially with our clients. Lots of focus on driving growth, driving innovation, but no fundamental changes in deal structures and services provided. So if we think about the softness in the third quarter in Lifestyle, other than pointing to the broader economy and some of the impacts that I discussed earlier, nothing related to client deal-related changes. And then Rick, you want to add anything on the sequential expense?

Richard Steven Dziadzio
Executive VP & CFO

Yes. Thanks, Keith. Yes, exactly. No changes to client contracts. But I would say the increase in the overall SG&A is reflecting some increases in the business, growth in the business, particularly in the auto business. Obviously, there's distribution costs with regard to that, and we have been growing the business over the last year. So there's some commissions in there.

Also in our prepared remarks, you heard us talk about some additional investments in our Home Solutions and a chunk of that obviously is expensed in the quarter. So those would be the 2 main drivers.

Operator

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

Gary Kent Ransom
Dowling & Partners Securities, LLC

I was wondering if you could add a little color on the exit from international housing. What -- how long will that take? And what size the magnitude of what's being reduced? It's not clear to me whether that includes the Caribbean exposure as well. But could you talk about that a little bit?

Keith Warner Demmings
President, CEO & Director

Sure. And it does include the Caribbean exposure and really anything that we write internationally that is cat-exposed homeowners related business. We've made the decision strategically to exit. I would say we'll be done writing policies. Most of it will be done this year. There's a little bit that we will finish at the end of the first quarter, but we won't be writing new policies as of Q2 '23.

And then depending on how some of the final discussions unwind, maximum, we'd have a 12-month runoff on those policies; in some cases, shorter. So that's to be finalized and determined. But in terms of the scale of it, I think about maybe $50 million in net earned premium in a year as being kind of typical, probably takes 10% of our tower. So if you think about the tower that Richard talked about, our reinsurance tower, 10% of that goes to protect the international exposures.

And strategically, it's been a challenging market. Hard to get rate. There's been rising costs as we know of claims. We expect rising cost of reinsurance, adds a lot of complexity to not only manage the business but negotiate the reinsurance that backs it. And ultimately, with modeled ALLs, fairly limited effect to all-in EBITDA, certainly EBITDA ex cat, but all in EBITDA with cat not hitting our target levels of return risk adjusted. So we're making the decision to further simplify and focus in places where we think we have clear competitive advantages and where we're differentiated.

We're not just a risk taker. We're providing deeply integrated, more differentiated services. That wasn't the case with this business, and we weren't able to get the returns we wanted.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Is some of this business coming through the LPI business as well?

Keith Warner Demmings
President, CEO & Director

No.

Gary Kent Ransom
Dowling & Partners Securities, LLC

No? Okay. It's all just separate -- separate homeowners business [indiscernible].

Keith Warner Demmings
President, CEO & Director

Yes, separate homeowners. Some of it were a reinsurer, some of it were a direct writer. But none of it connects to what we do in LPI. And LPI is really unique. It's an incredibly advantaged business in terms of how we operate, how we're integrated and we create much more value than just being a risk taker, and we're able to get rate and we're able to drive the right level of profitability over time in that business. So it's quite a different business to manage versus what we've been working with in the international property side.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Great. And I also wanted to ask about the 2 acquisitions. I know you had the EPG acquisition, maybe it's a couple of years ago now. But do those all fit together? I mean, is that -- is there some consolidation potential? And just I wondered if -- is that a market size that will be additive to the growth you're thinking about over the long run?

Keith Warner Demmings
President, CEO & Director

Yes, I think that's exactly right. If we think about the EPG acquisition and then the acquisition that we're talking about now, it's really to build on the strength that we've got in that market around commercial equipment, leased and finance equipment. We've had good results and strong growth. And we operate this business both in our Housing side and the Lifestyle side. So we're going to evaluate how to drive more synergies through the organization as we move forward.

But absolutely, it's capital-light fee income. We're talking about small tuck-in acquisitions of existing clients that are high performing. We're already underwriting the business and it's really just buying the administrative capability and the scale to drive that forward. So we definitely see growth in this line of business, and we think it can accelerate as we make somewhat are really quite small acquisitions, but can add a lot of value to our franchise.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes. You said that some of it is in housing and some of it is in Lifestyle. I guess I sort of thought of it as sort of similar to the auto business, but maybe I was wrong on that.

Keith Warner Demmings
President, CEO & Director

Very much. I think we write 2 different product lines when we think about heavy equipment and commercial equipment. Some of it is service contracts, some of it is physical damage. Operates very consistently, really predictable strong profitability. And that's been the legacy of how we've been set up as an organization.

So one of the things that we're focused on now is, as I talked about some of the housing realignment between risk-based homeowners business and fee income capital-light is just thinking about how do we create maximum efficiency and effectiveness organizationally, how do we create clarity in terms of where we want to focus to drive growth, what is the mindset that we need leading various different products and then make sure that we've got the least amount of friction in how we're organized as possible. So more changes to come as we think about our go-to-market strategy longer-term.

Gary Kent Ransom
Dowling & Partners Securities, LLC

And actually, just 1 more maybe a bigger picture question. When you're thinking about all these macro impacts and inflation, foreign exchange and then putting that in the context of how you were thinking about '23 and '24 before. I'm not even really asking whether what you think about hitting the '24 or not, but just what -- just how your thinking might have changed?

And what -- we've had these couple of disappointments in the second and third quarter. What did that do for your thinking about the outlook as we go into '24 and maybe even longer?

Keith Warner Demmings
President, CEO & Director

Yes, I think it probably -- we step back and reflect on just how uncertain and complicated the environment is. That's true for Assurant and it's true for most companies today, right? So there's a lot of market volatility, market uncertainty. Interest rates are moving quickly. The economy obviously is going to shift over the course of the coming quarters, and we'll see how that lands.

So there's just a recognition of the complexity. And then like I talked about earlier, we knew housing was going to be weaker this year. We thought the outperformance in Lifestyle would make up that gap as we thought about 2024. We certainly expect to continue to see the housing growth. It's no doubt going to grow as we think forward over the next couple of years. But the question mark is around can Lifestyle outperform at the level that we would have needed to in order to offset that housing softness?

And housing is probably more of a delay than a pivot in terms of what our expectations are. It's really just that we're a year behind where we thought we would be. But we are seeing evidence of significant improvement. And I think right now, given the uncertainty is particularly in the international markets, just taking a step back, like I said, finish the fourth quarter, deliver on a really strong plan in terms of what we expect to accomplish in '23 relative to expenses as well as driving the right outcomes with our clients. And then stepping back and revisiting what's possible as we think about the longer-term and then providing some color on a more informed basis in February.

Operator

Your next question comes from the line of John Barnidge from Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

You've had expanded partnerships in the Lifestyle business announced this year. I had a couple of questions on that. In light of inflationary pressures, one, can you talk about how you manage that inflationary volatility? And then can you contrast that with -- could that pressure actually lead to more partners looking to outsource more of their service management and refurbishment of mobile devices?

Keith Warner Demmings
President, CEO & Director

Yes, it's interesting. If I start with the second point first, just on outsourcing and this ebbs and flows over time. But I think as we think about a more challenging economy going forward, if we think about a recessionary environment, oftentimes, we'll see clients focusing on core. And the same for us, right? How do we focus on the things where we can generate the greatest amount of return? How do we prioritize what's critically important to the company?

I think clients do the same thing. So as clients reprioritize their focus, there may be opportunities for them to say, "Hey, is there someone else in the market that's better equipped to help me with something" because it's just not the burning priority at the moment. So we'll see how that evolves. That sort of happens over time, but it's certainly reasonable to expect as we continue to build scale and as we have better and better capabilities that are efficiently operated, we can provide a great source of value to our partners over time.

So I think that -- hopefully, that trend continues. In terms of the volatility in Lifestyle, from a macro environment, I think if you step back and look at the totality of the year, we've signaled some puts and takes around kind of the inflationary environment. In Lifestyle, we see its strong investment income, certainly flowing through the auto business, which is the biggest source of our portfolio. So that's a positive. We've seen mobile losses, as I talked about earlier, performing quite well, not because of inflation but because frequency of claims is reduced a little bit. And then how we're doing with controlling severity through walk and repair, et cetera.

And then we've had favorability in GAAP losses on the auto side, which we've talked about. And then 2/3 of the time, we're not on the risk, and we're sharing that risk back with our partners. So that leaves us with 1/3 of the deals where we're more, let's call it, more exposed to those pressures. And we are seeing losses on the risk side escalating. It's not a huge part of the portfolio. It's not a big part of our narrative this quarter, but certainly on the [ESC] side, cost of parts and labor a little bit on the auto side as well.

And then there's labor inflation. And we try to offset labor inflation with digital initiatives and investments in optimizing our operational transformation efforts. So those would be the big highlights on balance, not a huge driver for the year, but certainly, FX and softness internationally, which is -- we're feeling more of that is a pressure we expect as we go forward.

And I do think continued elevation of claims. And then our job will be to make sure that we've got the right pricing in place with clients that we're restructuring deals, and we're trying to drive more stability over time.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

That's helpful. And then following up on that, I wanted to go back to the pre-announcement, you talked about simplifying the business portfolio. You talked about exiting commercial liability and international housing catastrophe. Have you completed that simplification of the business portfolio? Or could there be additional niche lines you look to exit in the near to intermediate term?

Keith Warner Demmings
President, CEO & Director

Yes, great question. I would say we've -- I think we've had a very successful track record of managing the portfolio and you've seen us do that consistently over many years. There are certainly more things that we'll evaluate in terms of smaller product lines and making sure that we're investing in places where we have clear competitive advantages.

I think about -- we need a strong right to win and the size of the price needs to be meaningful. And there are probably other pockets where we could continue to refine the portfolio over time. And I think that will continue permanently, right? That's always going to be a part of our DNA is to look to optimize and create more focus on things that can more significantly move the needle and try to limit the distraction for the company, focusing energy on products that are smaller don't contribute significantly to the profitability of the company.

If that effort can be better placed elsewhere to drive more meaningful growth, those are the choices and trade-offs that our management team is making on a regular basis.

John Bakewell Barnidge

Piper Sandler & Co., Research Division

My last question. You talked about $12 million in buybacks in October. Does that seem like a reasonable run rate for the fourth quarter given the M&A transactions?

Keith Warner Demmings
President, CEO & Director

Yes, maybe I'll offer a couple of thoughts, and then certainly, Richard can jump in. I think -- when we step back and think about capital management at the highest level, we've talked about our focus on continuing to be very disciplined in terms of how we think about our capital. We've indicated interest in being balanced between share buybacks and M&A.

If you think about where we sit year-to-date, we've done $567 million in share repurchases and then $80 million we've signaled in M&A. So repurchases has been a big part of the story this year, nearly 90% of the capital that we've deployed in that respect. So I think we feel good about meeting our commitment on the Preneed return. We feel good about meeting our commitment to, in a normal year do $200 million to $300 million of share repurchases. But we also recognize the market is really challenging.

There's a lot of interest rate volatility, and we want to be more prudent in terms of capital management. And it's really just about maintaining flexibility, protecting our financial strength and then looking for the market to stabilize and for visibility to improve. And then as we look towards the future, we see our stock prices extremely attractive, right?

So as we think about future M&A, we'll have to have a very high hurdle rate in terms of the M&A relative to what a share buyback looks like today. But Richard, is there anything else you would add?

Richard Steven Dziadzio
Executive VP & CFO

Yes. I guess just to add on to what you said. I mean we -- in terms of share repurchases this year, we're already through October at -- a little over $550 million. In addition to that, $113 million in dividends. So that brings us to about, say, $670 million. So we had targets at the beginning of the year. We wanted to make sure we hit them for the year. And I would say we have hit them, which is why we signaled we would be at the lower end of that $200 million to $300 million we had talked about earlier in terms of repurchases outside of the Preneed proceeds that we repurchased.

And as Keith said, it's uncertain market conditions, and we want to make sure we continue to invest in ourselves and we continue to do the right things and remain disciplined with capital. So no change in our philosophy -- our capital philosophy, the discipline we have, keeping the balance sheet very strong.

As Keith said, and we've always said, we always look at deployment of capital between share repurchases and M&A. And in these markets, with the share price where it is, the share price, obviously, from our perspective, is extremely attractive today. So that creates a higher bar for M&A.

Operator

Your next question comes from the line of Jeff Schmitt from William Blair.

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

In Global Lifestyle, I understand the inflation impact being low on the claims side just because you don't retain a ton of the risk. But what about for SG&A? How much of that is employee comp and what level of wage inflation are you seeing there kind of relative to last year?

Keith Warner Demmings
President, CEO & Director

I think we're generally doing a pretty good job offsetting wage inflation with automation and our digital efforts. So certainly, paying our employees more is important in the war on talent, make sure that we're staying competitive, but I think we're doing a really good job offsetting that with our efforts on driving automation through our operations.

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

Okay. And then in Global Housing, I'm just trying to understand the numbers. When I adjust for or add back that restatement premium, brings that attritional loss ratio down to, I think, 38%. And then if there was -- if you back out the unfavorable development, it brings it down quite a bit more, 33%, 34%.

So I'm trying to understand, you're talking about the pressures that you're seeing there. I think you're pushing for double-digit rate increases. I guess, where is that pressure being felt? Or I guess, why is that the sort of loss pick is as low as it is?

Keith Warner Demmings
President, CEO & Director

Yes. Maybe, Richard, just to talk, I think we don't see it at that level. But maybe, Richard, just talk about our view on kind of the normalized loss ratio in the quarter.

Richard Steven Dziadzio
Executive VP & CFO

Yes. And I would start, it's a great question, Jeff. I think -- I'd first start by -- when we go in for rate increases, we are looking at it kind of bottom line. So you have to take in -- you're looking at the non-cat loss ratio. I think you have to look at all in. If you look at our combined ratio for the quarter with Hurricane Ian, it's over 100%, obviously. So that will be taken into account when we go and go for rate increases.

And essentially, what we end up doing with our non-cat loss ratio, there are a couple of different moving parts. If you think about it from a net earned premium part, we have caps that the reinstatement premium, we have to add that back, but also from the incurred claims, we have to take out the prior year development. When we add back the caps and we get to kind of like from a 68% that you see in the supplement to about 45%, and then we take out the $24 million of prior period development, we get to about 40%.

You're a little bit lighter. So there's maybe a numerator/denominator thing, But I think the point -- your point is a good one. You'd say 40%, that looks low. But it's really the all-in cost, including cat, including the expenses, the tracking, et cetera, that are taken into account when we go for rates.

So it's a bigger number on an all-in basis.

Operator

And your final question comes from the line of Grace Carter from Bank of America.

Grace Helen Carter
BofA Securities, Research Division

So I was wondering in the Lifestyle book, just given how much of that risk that you don't retain, it seems like inflationary pressures have been a bit more persistent than maybe a lot of people originally hoped. I know that you had mentioned in the past that you hadn't really been seeing too much pushback from your clients regarding your profit sharing and reinsurance arrangements.

I was just wondering if given the persistency of inflationary pressures and that, that actually started to show a little bit in the results in the quarter, if those conversations had evolved any in the past few months?

Keith Warner Demmings
President, CEO & Director

No, I would say the clients that are currently in profit share and reinsurance structures, that's the preferred approach for those clients. Those programs are quite -- typically quite large, very sophisticated. The clients understand the program economics and there's a tremendous amount of transparency in those deals, and there's sufficient profitability in those structures that can absorb the inflationary pressure.

So from a client perspective, no interest in moving away from those structures. And then clients where we're more on the risk, over time, we'll certainly see discussions evolve and emerge as clients become more sophisticated and interested in taking on more of the risk. That may evolve over time. But generally speaking, it's been pretty steady. And I wouldn't say it's a huge source of discussion with our teams.

Grace Helen Carter
BofA Securities, Research Division

Perfect. And I guess just kind of thinking of how the Lifestyle book has evolved over time, moving from sort of more of the protection in towards more fee-based services. I mean is the recent emphasis on growing fee-based services like trade-ins, upgrades, whatnot change the level of macro sensitivity today versus maybe what we've seen in downturns in the past? Or do you consider it to be pretty even?

Keith Warner Demmings
President, CEO & Director

I think it's pretty stable. I would say when you think about fee-based services, even what we do for clients that are reinsured, that doesn't show up in fee income. So if you think about administrative fees and underwriting fees, where we're not sitting on the risk, it still flows through outside of the fee income line, but it behaves a lot more like fee income, right? We get stated fees for providing insurance and related services.

So that's still a significant driver of our overall economics, and that doesn't show up in the fee income line. And then I think the thing we're excited about is the balance that we have today. We do a lot more work with partners across the value chain. So trade-in related services are important to our clients -- increasingly important. And it gives us another way to add value for our customers. It's more defensible competitively, and then we can create other unique ways to drive value longer-term because we're playing in a broader set of services across the ecosystem.

So from that perspective, I think it's really favorable and it does create more balance. But the bulk of the economics on the parts where we don't take the risk are also quite predictable, and that's evolved over time as well.

Wonderful. Well, thanks, everybody. Just a couple of closing comments from me. We believe we've performed well in what is a really challenging macroeconomic environment and remain differentiated in terms of our business model with compelling long-term earnings growth potential and cash flow generation capability. We look forward to closing the year strong and we'll talk to everybody on our fourth quarter call in February.

In the meantime, as usual, please reach out to Suzanne or Sean with any follow-up questions. And thanks, everybody. Have a great day.

Operator

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