S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

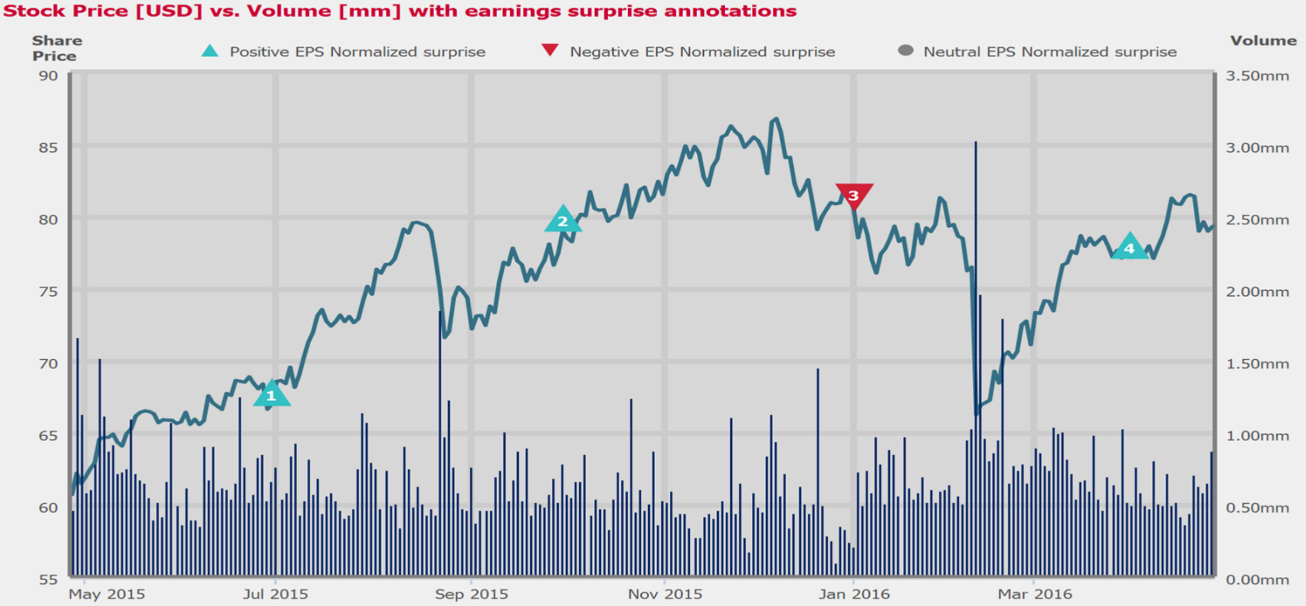
FQ2 2016 Earnings Call Transcripts

Wednesday, July 27, 2016 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.35	1.42	▲5.19	1.36	5.87	7.13
Revenue (mm)	1716.07	1797.79	▲4.76	1703.48	7018.40	6989.82

Currency: USD
Consensus as of Jul-27-2016 10:36 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	1.60	2.07	▲29.38 %
FQ3 2015	1.57	1.71	▲8.92 %
FQ4 2015	1.55	0.97	▼(37.42 %)
FQ1 2016	1.21	1.52	▲25.62 %

Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Christopher J. Pagano
Executive VP & Chief Risk Officer

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

Richard S. Dziadzio
Executive VP, CFO & Treasurer

ANALYSTS

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

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

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

Seth M. Weiss
BofA Merrill Lynch, Research Division

Presentation

Operator

Good morning, and welcome to the Assurant Second Quarter 2016 Earnings Conference Call and Webcast. [Operator Instructions]

It is now my pleasure to turn the floor over to Francesca Luthi, Executive Vice President, Chief Communications and Marketing Officer. You may begin.

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

Thank you, Jessa, and good morning, everyone. We look forward to discussing our second quarter 2016 results with you today.

Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; Richard Dziadzio, who joined Assurant last week as our new Financial Officer and Treasurer; and Chris Pagano, our Chief Risk Officer and former CFO.

Yesterday, after the market closed, we issued a news release announcing our second quarter 2016 results. The release and corresponding financial supplement are available at assurant.com.

As noted last quarter, this year, we revised the earnings release and financial supplement to focus on housing and lifestyle. Net operating income reflects contributions from our operating segments: Assurant Solutions, Assurant Specialty Property and Corporate as well as interest expense. Operating results exclude Assurant Health run-off operations, the amortization of deferred gains from dispositions and other variable items.

We believe these changes provide a more meaningful presentation of our financials and better reflect our go-forward strategy. On today's call, we will refer to other non-GAAP financial measures, which we believe are important in evaluating the company's performance. For more details on those measures, the most comparable GAAP measures and a reconciliation of the two, please refer to the news release and financial supplement available at assurant.com.

We'll begin our call this morning with prepared remarks before moving to Q&A. Some of the statements made today may be forward-looking, and actual results may differ materially from those projected in these statements. Additional information on factors that could cause actual results to differ materially from those projected can be found in yesterday's news release as well as in our SEC reports, including our 2015 Form 10-K and first quarter Form 10-Q.

Now I'll turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Francesca, and good morning, everyone. Overall results were consistent with our outlook as we continue to execute our multi-year transformation. While earnings were down for the quarter, we believe the steps we are taking to build a more compelling business portfolio, supported by our evolution to a more integrated global operating model, will enable us to deliver profitable growth long term.

As outlined at our Investor Day in March, we measure our progress with 3 key financial metrics: net operating income, operating earnings per diluted share and operating return on equity, all exclude reportable catastrophe losses given the inherent volatility of weather.

Through the first 6 months of 2016, net operating income, excluding reportable catastrophe losses, decreased to 16% to $215 million, primarily due to the expected declines in lender placed, lower results from legacy business as well as the loss of a tablet program. Higher tax expenses at Corporate also contributed to the decrease.

Operating earnings per diluted share, excluding catastrophe losses, declined 9% to $3.34. Lower earnings were partially offset by share buyback activity. Annualized operating ROE, excluding AOCI and catastrophe losses, was 11.9%, in line with 2015. Our fee-based and capital-light businesses, comprising Connected Living, mortgage solutions and multi-family housing, now represent 52% of our revenue and nearly 1/3 of our earnings.

Our balance sheet remains strong, with $725 million of holding company capital as of June 30. So far, through July 22 of this year, we have returned a total of $548 million to shareholders via dividends and share repurchases, consistent with our intent to return $1.5 billion by the end of 2017.

Let me now share some highlights from the quarter to illustrate our progress in building a stronger Assurant for the future and achieving our longer-term profitability goals.

In June, we received final notification from CMS of the 2015 ACA risk mitigation payments, which were near our estimates. This represents another important milestone in winding down our Health operations.

In addition, we were able to dividend $84 million to the holding company during the second quarter. We also received $604 million in dividends related to the sale of Employee Benefits, with more expected later this year and into 2017 as we release capital formerly supporting the business. This capital, along with cash generated from Solutions and Specialty Property, provides us significant flexibility to return capital to shareholders and to invest in attractive businesses where we can outperform.

This quarter, we also took several actions to strengthen our housing and lifestyle offerings. At Solutions, our focus remains on growing earnings and improving margins through a combination of profitable growth and operating efficiencies worldwide.

For example, we expanded an existing OEM partnership in Chile and Italy through the introduction of new device upgrade programs. We also launched a program with Vodafone U.K. to replace mobile phones in as a little as 4 hours of an approved claim. Through innovative products and services such as these, we have broadened our market share and are now protecting more than 31 million devices.

To drive greater efficiency, we also implemented expense management actions at Solutions, primarily focused on our legacy run-off businesses. All of these initiatives, along with steady contributions from our vehicle protection and pre-need offerings, will help us deliver on our commitment to increase net operating income by 10% on average annually over time.

At Specialty Property, we're evolving the lender-placed platform as we look to enhance our market-leading position. The investments we have made to better serve homeowners and clients, together with our continued focus on compliance, remain key differentiators.

We're pleased to announce that we will start to on-board approximately 700,000 loans later in the third quarter, including the return of a block of loans that was previously transferred to a competitor in 2014.

Leveraging our strong position as a trusted adviser in lender-placed, we continue to expand our offerings across the broader mortgage value chain. Earlier this month, we announced the acquisition of American Title, a leader in title and valuation services, specifically for home equity lenders. With nearly $50 million of annualized fees, this represents another important extension of our fee-based, capital-light offerings in mortgage solutions.

In addition to strengthening our business portfolio, we are realigning our operating model to better support profitable growth. On July 1, Gene Mergelmeyer moved into his role as Chief Operating Officer, overseeing all of Assurant's global business lines. In the months ahead, he will evolve our organizational structure to deliver greater coordination across our operations and improve execution. We believe this operating model will more efficiently leverage our enterprise scale to create competitive advantages in the key markets we serve. But perhaps the most important outcome of this transformation will be an ability to deliver greater value to our customers and more opportunities for our employees.

Another important step in shaping our enterprise model is the addition of Richard Dziadzio, who joined Assurant last week as CFO and Treasurer. Richard is an accomplished leader, holding a number of key finance positions in leading global insurance organizations over the past 22 years. His expertise will be critical in enhancing the ways in which finance supports the business while, at the same time, helping us to deliver on our broader strategic objectives. He will build on Chris Pagano's strong track record by further integrating our global financial operations and executing our capital management strategy. I know Richard is looking forward to fostering a strong partnership between Finance and Risk.

On behalf of our employees, I'd also like to thank Chris for his leadership and many contributions as CFO. Now as Chris moves into the chief role -- Chief Risk Officer role, he will strengthen our robust risk management framework even more.

We've made tremendous progress executing our transformation in the first half of the year. Our focus for the balance of 2016 will be on substantially concluding the wind down of Health, implementing a more integrated operating structure and positioning Assurant for profitable growth in 2017 and beyond.

Before Chris reviews our second quarter results in greater detail, I'll ask Richard to share some thoughts on what's ahead. Richard?

Richard S. Dziadzio
Executive VP, CFO & Treasurer

Thanks, Alan. I'm excited to join Assurant as we transform the company to deliver on our shared aspirations of outperformance. I'm encouraged by our fundamentals, and the continued momentum of our core businesses. I believe as we further align our operations we can deliver even greater value to our customers, employees and shareholders. I also view our strong cash flow generation and disciplined approach to capital management as key differentiators. We will continue to return capital to shareholders in the form of share repurchases and dividends, while also investing in specialty businesses to strengthen our capabilities, offerings and distribution channels.

In the next several months, I'll focus on aligning the finance team with our new global operating model to support growth in housing and lifestyle and I'll work to evolve our financial reporting framework.

Since joining Assurant last week, I received strong support from Alan, Chris and the senior leadership team as well as the entire finance organization. In the near term, I will spend time listening to understand where we're strong, while continuing to enhance our process and approach.

During this period, I will have the opportunity to visit with many of you, and I look forward to it. With that, I will turn the call over to Chris to review the quarter in more detail.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Thanks, Richard. I'm glad to have you onboard, and I look forward to working together to support Assurant's long-term strategic and financial objectives.

Turning to the quarter, Solutions results included $10 million of higher onetime tax benefits year-over-year. Excluding these items, earnings decreased by $9 million to $43 million. This expected decline was driven by lower production from North American retailers and the impact of the loss of the tablet program. We also incurred $2.4 million of severance-related costs as we continue to streamline non-growth operations.

Total revenue at Solutions grew 3% from the prior period, due to increase covered mobile devices and double-digit growth in vehicle service contracts. Our auto business benefited from strong U.S. vehicle sales and a onetime contribution from a client.

This was partially offset by declines in certain North American retailers, the impact of the loss of the tablet program and foreign exchange volatility, particularly in Argentina.

While earnings at solutions were down for the first half of the year, performance was consistent with our outlook. For the full year 2016, we continue to expect net operating income to increase. Profitability will be driven by savings from expense initiatives, improved international profitability and the ramp-up in new mobile programs toward the end of the year.

At Specialty Property, earnings decreased year-over-year by $31 million to $57 million. $10 million of the decline was attributable to higher catastrophe losses and the remainder reflects the expected normalization of lender placed, lower real estate owned policies and the impact from the previous loss of client business.

The combined ratio for the risk-based lender-placed and manufactured housing lines of business increased 490 basis points to 87.3%. This was the result of severe flooding and hailstorms in Texas as well as lower lender-placed revenue.

The fee-based, capital-light offerings generated a pretax margin of 11.2%, 250 basis points lower than the prior year, related to additional expenses to support growth in our mortgage valuation business.

Overall net earned premiums and fees at Specialty Property decreased 12%, primarily due to lower placement and premium rates for lender placed as well as lower real estate-owned policies. We did, however, see continued expansion in multi-family housing and mortgage solutions.

Multi-family housing revenue increased over 11% from growth in our affinity channels and property management network. Mortgage solutions fee income grew 4%, with increases in property preservation and default appraisals.

The catastrophe activity in the quarter serves as an important reminder of the need for comprehensive coverage. In June, we finalized our 2016 Catastrophe Reinsurance Program, purchasing $1.4 billion of coverage on attractive terms. We also lowered our U.S. retention to $125 million, a decrease of nearly 20%, mainly due to declining exposure.

Our outlook for the segment is unchanged. We continue to expect lower revenue and profits for 2016, reflecting the normalization of lender placed. Expense efficiencies and growth in targeted areas will partially offset the decline.

Please note that the new block of loans Alan referenced has a higher placement rate than our overall average, but it will transfer to Assurant at renewal and, therefore, isn't expected to generate much premium until 2017.

Turning to Health and runoff operations. The segment reported a net loss of $5 million, slightly better than expected. A reduction in estimated recoverables for the 2015 risk mitigation programs was partially offset by more favorable claims development and a pharmacy rebate. Results also included $4 million in severance-related costs as well as other indirect expenses not included in the previously established premium deficiency reserves.

The wind down of health is moving along as planned, and we believe the risk for volatility in claims development is relatively low. In June, we received final notice from CMS regarding risk mitigation payments for 2015 ACA policies. The final amount, including a lower risk adjustment payment, is reflected in our second quarter financials. We have already received $66 million in reinsurance payments this year. And as of June 30, around $419 million of net receivables remain on our balance sheet. CMS expects to remit payments for these outstanding balances starting in the third quarter.

Year-to-date, we've taken $149 million in dividends from Health. Consistent with initial estimates, we expect the holding company to receive another $325 million later this year, subject to regulatory approval and receipt of the 2015 risk mitigation payments.

Moving to Corporate. The loss for the quarter increased $10 million to $19 million, primarily due to higher taxes, which will reverse during the remainder of the year.

For full year 2016, we continue to expect the Corporate loss to approximate $70 million. We are working to integrate support functions and ultimately eliminate residual expenses from Employee Benefits, which will create a more efficient operating model for the future.

Moving to capital. We ended the second quarter with $475 million in deployable capital. In addition to the $688 million of dividends from the sale of Employee Benefits and wind down of Health, we received $86 million from Solutions and Specialty Property during the quarter. Our strong cash flow generation and receipt of the Employee Benefits proceeds at the holding company during the quarter allowed us to repay the $250 million of short-term financing secured earlier in the year, return $226 million to shareholders in the form of share repurchases and dividends, invest $9 million in mobile technology capabilities and set aside $45 million for the July 1 closing of American Title.

Through July 22, we bought an additional 363,000 shares, bringing the total shares repurchased year-to-date to just over 6 million. Overall, we are committed to executing our transformation strategy to ensure long-term profitable growth in housing and lifestyle.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Seth Weiss from Bank of America Merrill Lynch.

Seth M. Weiss
BofA Merrill Lynch, Research Division

I would like to ask about the Solutions earnings and just maybe try to get a little bit more granularity as we head into the back half of the year on the pickup you expected. So now that we're actually there in the back half of the year. Perhaps, you can give us a little bit of details on the emergence of these programs that should contribute to revenue and earnings as well as the scale of the contribution we should see.

Alan B. Colberg
President, CEO & Director

So Seth, maybe I'll start with just a little bit of commentary on what we're trying to do overall this year, and then I'll ask Chris to elaborate on that question. We thought about 2016 very much as a transition year as we set up Assurant for long-term profitable growth. And we've really been focused on 3 things. One is getting our portfolio really focused on the market-leading positions we have in Solutions and in Property, and we feel very good about the progress with the proceeds coming up from Employee Benefits. As you heard Chris say, and I said, Health is now effectively on track to the wind-down. And we've been continuing to make selective investments to really strengthen our position, as we did this quarter with American Title -- or as we're about to do in July. The second thing we've really been focused on is getting to a more kind of agile, efficient operating model, and that includes things like moving to the Chief Operating Officer structure, which really sets up opportunities for us to go after improving the coordination across our products and improving the kind of efficiency of our operations. And we've brought onboard significant outside talent, Ajay Waghray joining us a few months ago as the Chief Technology Officer; Richard joining us as the CFO. And the third thing we've really been focused on is deploying capital. And you've seen our commitment to return $1.5 billion over a couple of years and deploy it. So we feel -- yes, transition year, we said we expect earnings overall to be down, not true in Solutions, but earnings overall to be down. And we feel like the progress is well under way. But with that said, Chris, you want to talk about Solutions in the second half?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Sure. Seth, so again, we don't comment on specific clients, but what I can tell you around the mobile business and what we're looking at for the second half is first half was weaker but as expected. We do think that we're still comfortable with our expectations, our outlook that the second half of the year will be better than the first half, so second half '16 better than first half '16; and that full year '16 will be higher than full year '15. And then, of course, longer term, we do view the 10% average annual NOI growth as an achievable target. So in terms of specifics around -- we did take some action on expenses, where we'll start to see the benefit in the second half. The other thing to keep in mind is that the revenue growth will potentially be muted within Solutions, but think about a rotation that's going on, the run-off of the big-box retailers and the non-growth credit business, for example, being offset by growth in the higher-margin fee-based business, in particular, on the mobile side. So you combine this rotation to higher-margin product with expense initiatives, we think you're going to see -- while you may not see revenue growth, you're going to see growth in the bottom line, and that's what we're thinking for the second half.

Seth M. Weiss
BofA Merrill Lynch, Research Division

So when you talk about the new programs rolling on, are these the extended OEM program in Chile and the Vodafone program you commented? Or are those sort of above and beyond some of the other new programs that are rolling on?

Alan B. Colberg
President, CEO & Director

Yes, I think the important context is whenever we sign a new program, it takes some time to ramp in. So really, what we're talking about here are some of the things that we announced late last year really kicking in. We announced, for example, partnerships with Google and eBay and a few others, those are now ramping into the P&L. And then we talked about the significant expansion of programs to some of our prior clients and continuing clients that also are really kicking in, in the second half. But the things we announced today will really be more significant when you get into '17.

Operator

Your next question comes from the line of Michael Kovac from Goldman Sachs.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

Wanted to ask a question, as we look at the fee-based sources of income and property in the quarter. And obviously, a 7% growth in that line is pretty nice, but a little bit slower than the overall long-term target of 8% to 12% across both multi-family and mortgage solutions. And I think the roll-on of the American Title acquisition will, obviously, sort of distort these revenue growth numbers go forward, but can you give us an update on what you're seeing across maybe both of them and more specifically on the mortgage solutions that give you long-term confidence in the organic growth rates there?

Alan B. Colberg
President, CEO & Director

Yes, if we go back to what we said at Investor Day, we mentioned that longer term, we see 10%, 12% type growth rates across those lines of business. And we -- again, you have some volatility quarter-to-quarter. We felt good about the progress, multi-family, we continue to rapidly outgrow the market. And then in mortgage solutions, you have some typical fluctuations as we ramp in with the new client or things shift around a little bit in the marketplace just on activity in the mortgage market. But no change in our perspective. We are gaining share and are continuing to gain share.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

That's helpful. And as we think about American Title, can you give us a sense of sort of what the margins are that you're targeting in there? Is that in line with the capital-light pretax margin targets of 15% to 20% for that segment?

Alan B. Colberg
President, CEO & Director

Yes.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

And then just one more, if I could. Mentioned the loan program, 700,000 loans rolling on. Anything that you're seeing in the competitive marketplace? Obviously, there's been some acquisition in the marketplace that changes the dynamics for Assurant going forward?

Alan B. Colberg
President, CEO & Director

Yes. So if you think about the lender-placed homeowners business, it has been and remains a very competitive marketplace. We have strong competitors that we have to compete with on a regular basis for every piece of business. The good news, though, is we have the industry-leading platform and capabilities and customer service and we continue to invest in those. And yes, we'll occasionally lose pieces of business, but more often than not we win pieces of business. And having this client return I think is just a testament to the quality of our operation and the value we deliver for our clients and for their consumers.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Just maybe -- just maybe another comment or 2 on that portfolio. So as a reminder, it's going to start at the end of the third quarter. We're going to incur some costs during the -- preparing for it to onboard the loans. The loans will transfer on renewals, so it's going to take 4 quarters for the full letter cycle, and all these loans to finally be on the portfolio. So this will be a '17 event from a premium and profit standpoint. But again, as Alan mentioned, just really an indication of the platform and the quality of the operation at Specialty Property.

Operator

Your next question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

So first, just similar to the previous question, I just wanted to follow up on your confidence in a pickup in Solutions revenue in the second half. I think now you're implying that most of that growth is going to come late in the year, so maybe the fourth quarter. But has anything changed in terms of your views of that business now versus maybe 3, 4 months ago? And just in terms of if you could give us some detail on the contracts that are going to drive the expected pickup, have already signed those? Or are those relationships that you're expecting to sign as you go through the year?

Alan B. Colberg
President, CEO & Director

So the first, most important thing, Jimmy, is nothing has changed. Our view on Solutions has been consistent and remains consistent. As we've said, we expect earnings to improve in the second half of the year relative to the first half. And as Chris said, we still fully expect full year earnings to beat 2015 full year earnings. And in terms of what's going to drive it, everything is in place. These are all programs that have started and are ramping. So nothing new needs to happen for those other than they need to develop as we anticipate they'll develop. They're on track and we feel very good. I don't know, Chris, would you add anything to that?

Christopher J. Pagano
Executive VP & Chief Risk Officer

No, I guess just want to -- maybe just emphasize the fact that this rotation in the mix shift will produce the bottom line profitability. So while there may not be significant revenue growth in aggregate, you're going to see the run-off in the retailers and the non-growth business offset by growth in the fee-based, higher-margin business.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And could you give us some color on the slowdown in the mobile business this quarter? On a sequential basis, obviously, year-over-year, the tablet contract affected it, but just the slowdown versus the first quarter.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, just in general, again, the tablet was a main driver there. It was just some of the programs were -- just the volumes on the programs weren't where we had -- where they had been in the past. There's a little bit of a lower mobile profit in Europe but, again, we're taking actions to address that and we feel very good about the second half.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And then lastly, on share buybacks, they were lower than in -- than you had in the first quarter. And given your capital position, your free cash flow generation, I would have thought that you would have been able to keep up a similar pace or maybe even accelerate a little bit. So just some color on that. And would you expect, like in normal years when you slowed down buybacks in the third quarter because of potential cat activity, would you expect the same to happen this year as well?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, so I think the goal for us is to be consistent with years past. We still think the shares are attractively priced. We bought back 6-plus million shares through this 22nd of July, which is almost 10% on the float. So feel good about the volumes. The deployable capital at the end of the quarter and our line of sight on sources of capital, in particular, the dividends from Health and some of the capital release from Benefits, which we're expecting in the second half, gives us a lot of flexibility. And in years past, when we've typically said we'll need to slow down as we go into cat season, I think we've got ample flexibility to continue to buy consistently through the second half.

Operator

[Operator Instructions] Your next question comes from the line of Mark Hughes from SunTrust Robinson Humphrey.

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

The margin for the fee-based business within Specialty Property, you talked about some additional investments to support growth this quarter. Are you going to have the same thing next quarter? Should we anticipate margins steady to up in Q3?

Alan B. Colberg
President, CEO & Director

So you know, Mark, we don't really give quarter-to-quarter type guidance. There's normal volatility, but nothing has changed in where we think long term those margins are, which is 15% to 20%. And we're taking action to ensure that we achieve that over time. So nothing's really changed. What happens quarter-to-quarter, there's normal volatility.

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

Got you. And then the global vehicle protection, I think you had suggested good growth, but then also a onetime bump, can you quantify that onetime contribution?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Sure. So if you -- so that was about $19 million or $20 million in the quarter, so if you backed that out year-over-year, that's not the 35% and but a 22% growth. And then quarter-on-quarter, not the 18.5, but I think the number 7, so still very good growth in the core business, even after you back out the onetime.

Operator

Your next question comes from the line of Seth Weiss from Bank of America Merrill Lynch.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Just a couple of detailed questions. First, on Health, you have $325 million remaining to be dividend up this year as per your target, and you also have $420 million remaining on ACA recoverables. Does that suggest that there's about $100 million residual that could be sent upstream in 2017 and beyond? Or am I thinking about that wrong?

Christopher J. Pagano
Executive VP & Chief Risk Officer

I don't know that the math is that simple. Health is still an ongoing operation, there are expenses and so on. We do think there'll be some capital that we'll be able to get out of the business as it completely winds down, but not the $100 million that you're suggesting there.

Alan B. Colberg
President, CEO & Director

And Seth, and just one other comment on Health. As you all see in the market, Health remains a very challenged sector and a very challenged industry. I think the very good news for us is we are effectively done at this point. There's still a little bit of volatility that could happen, but not a lot. We're really into the final chapter of the wind down at this point.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay, great. And then on Solutions, just in terms of reiterating guidance for earnings to be at a greater level than 2015. If we exclude the $18 million tax benefit, does that guidance still hold true?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, it does.

Operator

Your next question comes from the line of Mark Hughes from SunTrust Robinson Humphrey.

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

Any update on your eventual outlook for the placement rate within Specialty Property to be 1.8% to 2.1%? Anything in the market that you're seeing in terms of pace or kind of absolute level of delinquencies, et cetera, that give you reason to change the outlook there? Or change it a little bit?

Alan B. Colberg
President, CEO & Director

Not at all. I think the pace of normalization is continuing. As you'll recall, years past, it took a while to get going, but the last couple of years, it's been proceeding pretty much as we've been projecting and we don't see anything overall in the market. Now again, as we onboard new loans that have a higher placement rate, you may see some natural kind of bumps in that. But longer term, that 1.8% to 2.1% remains our perspective on the placement rate.

Christopher J. Pagano
Executive VP & Chief Risk Officer

And I would also point out, and go back to Investor Day, Mark, we did also talk about the REO volume as a percent of gross written trending lower as a result of the normalization, too. So you're seeing that trend as well going from 19% a year ago, 15% this quarter, and with our long-term outlook being 10% of gross written. So unambiguous normalization trends are in place at this point.

Alan B. Colberg
President, CEO & Director

All right. Well, I want to thank everyone for participating in today's call. We look forward to updating you on our progress in October. And as always, you can reach out to Suzanne Shepherd and Jisoo Suh with any follow-up questions. Thank you all very much.

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