S&P Capital IQ

CONTENTS

Assurant, Inc. NYSE:AIZ

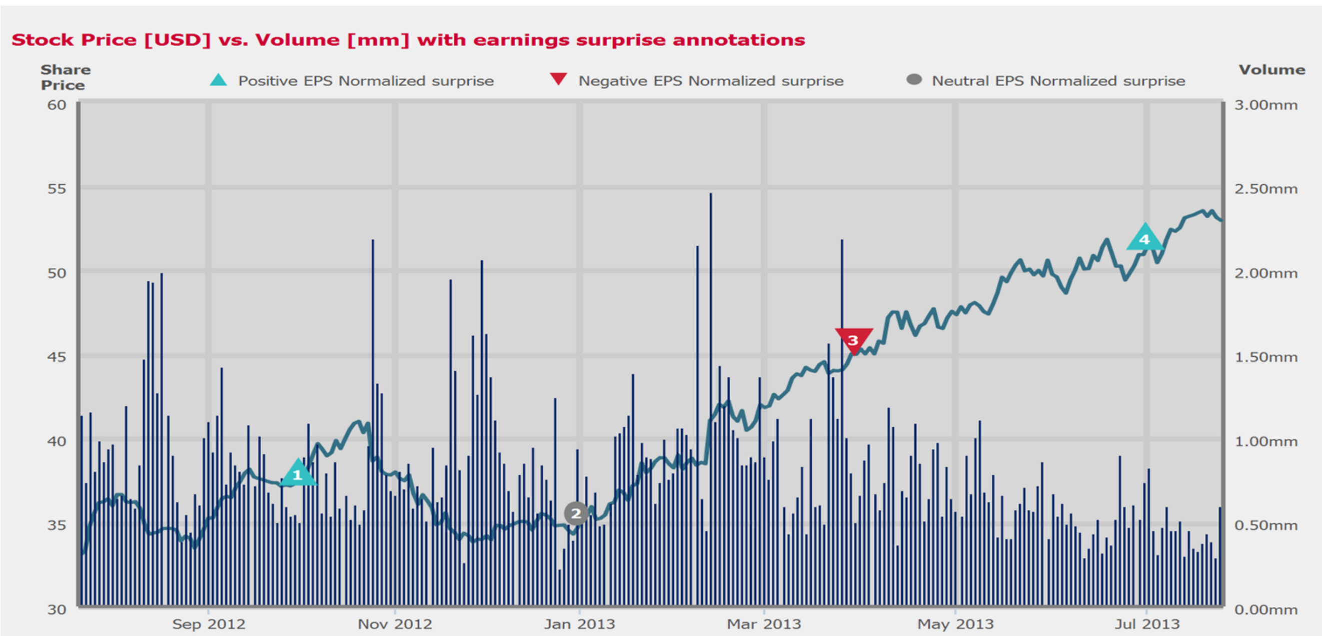
FQ3 2013 Earnings Call Transcripts

Thursday, October 24, 2013 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2013-			-FQ4 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.49	1.71	▲14.77	1.54	6.07	6.02
Revenue (mm)	2204.76	2258.65	▲2.44	2167.68	8779.94	8958.74

Currency: USD
Consensus as of Oct-24-2013 12:02 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2012	1.43	1.55	▲1 8.39 %
FQ4 2012	(0.28)	0.07	NM
FQ1 2013	1.54	1.35	▼2 (12.34 %)
FQ2 2013	1.43	1.53	▲3 6.99 %

Call Participants

EXECUTIVES

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Francesca Luthi
Chief Communication & Marketing Officer and Executive Vice President

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Robert B. Pollock
Former Chief Executive Officer and Executive Director

ANALYSTS

A. Mark Finkelstein
Evercore ISI, Research Division

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

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

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

Seth M. Weiss
BofA Merrill Lynch, Research Division

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

Presentation

Operator

Welcome to the Assurant's Third Quarter 2013 Earnings Conference Call and Webcast. [Operator Instructions] It is now my pleasure to turn the floor over to Francesca Luthi, Senior Vice President, Investor Relations. You may begin.

Francesca Luthi
Chief Communication & Marketing Officer and Executive Vice President

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

Yesterday afternoon, we issued a news release announcing our third quarter 2013 results. Both the release and corresponding financial supplement are available at assurant.com. We'll start today's call with brief remarks from Rob and Mike, with Chris participating in the Q&A session.

Some of the statements we make on today's call may be forward-looking, and actual results may differ materially from those projected in these statements. Additional information on factors that could cause actual results to differ materially from those projected can be found in yesterday's news release, as well as in our SEC reports including our 2012 Form 10-K and our first quarter 2013 10-Q.

Today's call will also contain non-GAAP financial measures, which we believe are meaningful in evaluating the company's performance. For more details on these measures, the most comparable GAAP measures and a reconciliation of the 2, please refer to the news release and financial supplement posted on assurant.com.

Now I'll turn the call over to Rob.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Thanks, Francesca, and good morning, everyone. During the third quarter, we delivered good overall operating results, driven once again by Specialty Property. Earnings at Solutions and Employee Benefits were below our expectations. Strong sales across all our businesses demonstrated that our specialty products and services are connecting with our customers and clients.

Now I'll summarize our performance against our 3 key financial metrics: annualized operating return on equity, excluding AOCI, was 11% year-to-date; book value per diluted share, excluding AOCI, increased by 8.2% since year end; and revenue, defined as net earned premiums and fees, increased by 6.2% compared to the first 9 months of 2012, driven by Specialty Property and Solutions.

Throughout Assurant, our focus remains on increasing operating income by driving profitable growth in targeted areas, reducing expenses and aligning resources with our best opportunities. During the quarter, we announced 3 strategic acquisitions, all were in areas we've identified for expansion.

At Solutions, the acquisition of Lifestyle Services Group supports our growing mobile platform by providing protection products, logistics support and customer service in Europe. In Specialty Property, we bolstered our capabilities in home restoration and preservation by acquiring Field Asset Services. And we strengthened our position as a leading administrator of the National Flood Insurance Program by purchasing renewal rights on a block of policies from Travelers.

We also returned $124 million to shareholders in the quarter through buybacks and dividends. Our strong free cash flow enabled us to make these strategic acquisitions while also returning capital to shareholders.

Now I'll provide updates for each of our business segments. At Assurant Solutions, earnings for the quarter were lower than expected. Increased loss experience with an established mobile program drove the shortfall. We also incurred additional expenses to support new mobile programs.

We're pleased with the enthusiastic response to T-Mobile's JUMP! offering, where enrollments are exceeding our expectations. In addition, our new programs with Boost and Virgin Mobile are generating good results. As we build our mobile business for this growth, we'll take actions elsewhere to reduce expenses and improve profitability. For example, in the U.S., we're further streamlining our credit and service contract businesses in response to market conditions.

In Europe, we'll reduce expenses as we integrate with Lifestyle Services Group. After incurring onetime charges, these actions and others should produce between $20 million and $25 million of annualized pretax savings.

In combination with our mobile expansion, we expect Solutions will earn about $50 million in the fourth quarter of 2014. We believe this earnings milepost is another way to track our progress. It translates into approximately 14% return on equity in the fourth quarter of 2014. We acknowledge this has been slower than expected, but we remain committed to improving profitability and returns at Solutions.

I'll now move to Specialty Property, which again reported very good results due to the lack of hurricane activity in the third quarter. The strength of our lender-placed business and our growing footprint in multifamily housing allowed us to grow net earned premiums and fees in the quarter by 18%.

In our lender-placed business, we now provide loan tracking services on 34.5 million loans nationwide. This represents an increase of more than 3 million loans since year end, during a time when we believe the overall number of loans in the marketplace actually declined. The combination of superior tracking and customer service capabilities contributed to our growth.

The changes we put in place with our new product, along with expenses related to new servicing requirements, will reduce future returns. To help offset the impact, we launched a major initiative to achieve greater operating efficiency and further enhance service. Overall, we expect lender-placed to remain an attractive specialty business.

We continue to view the multifamily housing market as a growth opportunity. Recent enhancements to our product should allow us to grow revenues at a double-digit pace over the next several years. Our acquisition of Field Asset Services expands our specialty strategy within the mortgage value chain. Its strong operating platform, broad vendor network, and extensive property preservation offerings provide attractive growth potential.

In addition, the transaction with Travelers make Specialty Property the second largest National Flood Insurance Program administrator. It will provide us added insight into the broader residential flood insurance market. These acquisitions further diversify Specialty Property's revenues and should produce attractive returns with modest capital requirements.

Now turning to Assurant Health. During the third quarter, sales increased by 31% year-over-year, driven by strong results in individual medical and small group. Through our multichannel distribution network, in 43 states we offer major medical products that provide the required essential health benefits -- more, we believe, than any other insurer.

Now that the public exchange marketplace is open, we are focused on helping consumers and our distribution partners understand the options available to them. Assurant Health's access and supplemental products are proving to be valuable resources for consumers looking for affordable alternatives to major medical coverage.

We continue to manage expenses carefully as additional elements of the Affordable Care Act are implemented. We're encouraged by Health's progress this quarter and remain optimistic that the business will provide attractive returns to shareholders over time.

Assurant Employee Benefits continued to make progress, scaling our voluntary products and services, another key targeted area for long-term profitable growth. Total sales increased by 41% from the third quarter of 2012. This demonstrates that our streamlined enrollment capabilities and broad product portfolio are attractive to small employers and their employees.

Macroeconomic trends continue to pressure results in long-term disability. Low interest rates, along with modest job and wage growth, will continue to challenge this business. We're accelerating expense management efforts to improve disability returns as we continue to grow our voluntary business.

In summary, we remain committed to driving profitable growth across Assurant. We'll continue to scale our targeted growth areas and reduce expenses even more aggressively in nongrowth businesses.

And with that, I'll turn to Mike for more detailed comments on third quarter results.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Thanks, Rob. I'll begin with Solutions, where net operating income decreased by $6.6 million year-over-year after adjusting for disclosed items, including a $5.8 million net tax benefit this quarter. The decline was primarily due to higher-than-expected loss experience at an established domestic mobile client, where we saw a substantially higher claim frequency and severity on certain models of smartphones.

We've been working closely with the client to implement pricing and plan design changes and expect experience to normalize by the first quarter of 2014. It's important to note that growth in our mobile business and the rapid pace of new product introductions in the mobile industry make it likely that we'll see some volatility in our experience from quarter-to-quarter.

Solutions' net earned premiums and fees increased 5%, driven primarily by growth in Latin America and from the mobile programs launched earlier this year. As a reminder, in our expanded relationship with T-Mobile, they retained the risk on the insurance protection component of the JUMP! program. Solutions will earn fee income and share the risk on the device upgrade option. The relationship will generate gross written premiums, fee income and profitability as the enrolled subscriber base grows.

The JUMP! program began in July and there's a 6-month waiting period before customers can trade in their devices. Upgrade experience will begin to emerge in January of 2014.

Domestic net earned premiums reflected sales growth at a large service contract client. Our vehicle service contract business also continued to grow after adjusting for the impact of a block of assumed business on third quarter 2012 premiums. These increases were partially offset by the mobile client we lost in 2012 and lower production from most retail clients.

In addition, effective September 1, we stopped rating new business for a retailer, which had been generating approximately $100 million of net earned premiums annually. Unearned premiums for this client will earn over the next 18 to 24 months.

The domestic combined ratio increased as a result of the higher mobile loss experience. We expect the combined ratio, excluding disclosed items, to remain above 98% until the corrective actions take full effect.

Previous expense management actions in Europe drove a 110 basis point improvement in our international combined ratio, excluding disclosed items. We were pleased that our U.K. operations posted a small pretax profit. For the full year, we still expect to deliver a 100 to 200 basis point reduction to our international combined ratio on an adjusted basis.

At preneed, results continue to be pressured by lower investment yields. We recently received regulatory approval in the U.K. for the Lifestyle Services acquisition and we plan to close tomorrow. We'll immediately begin the integration process. As we combine the 2 organizations, we expect to substantially reduce expenses across Europe.

For the remainder of 2013, we continue to expect modest top line growth from Solutions, driven primarily by mobile, both in the U.S. and abroad. Based on the ramp-up costs for T-Mobile and the loss experience I mentioned, we now expect fourth quarter net operating income, excluding disclosed items, to be consistent with quarterly results so far this year.

While we are lowering our near-term earnings expectation for Solutions, we expect revenue -- we expect growth in revenue and earnings from mobile and our Latin American operations, combined with expense reductions, to drive improved profitability in 2014.

Specialty Property's third quarter results benefited from no reportable catastrophes, as well as continued growth of our lender-placed and multifamily housing businesses. During the quarter, we onboarded 700,000 of the 1 million new loans that we expected to add in the second half of 2013. The remaining 300,000 will come on board in the fourth quarter.

Expenses were up in the quarter due to volume growth in our lender-placed business and the additional services we are now performing for our clients. Our placement rate declined sequentially from the second quarter to 2.75%, reflecting attrition in our legacy block of business, partially offset by higher placements on recently added loan portfolios.

During the third quarter, we continued our proactive outreach with state regulators. Our new lender-placed product is now available in 38 states, with implementation underway in another 4 states where it has been approved.

Based on our recent agreement with Florida, we'll file for a 10% rate reduction on our lender-placed hazard program in the state. We expect the rates to be formally approved prior to year end, with implementation beginning in the first quarter of next year on policies issued or renewed. We also expect Florida to eliminate commissions and quota-share arrangements for lender-placed providers in the state by the end of 2014.

Looking ahead, contributions from the newly added loan portfolios and elimination of a client quota-share arrangement will help offset declines in placement rates and premium rates as we implement our new product. Continued growth in our multifamily housing business, along with the acquisition of Field Asset Services, will also help sustain revenues.

At Assurant Health, we reported $6.6 million of net operating income in the quarter. This reflects less favorable loss experience, partially offset by a lower effective tax rate compared to the third quarter of 2012. For the full year, we still anticipate that our effective tax rate will be very high as a result of nondeductible expenses related to health care reform.

Pretax earnings declined by $10 million, largely due to less favorable loss experience. Our loss ratio increased by 200 basis points, primarily because of the pricing changes on major medical insurance we made to meet minimum loss ratio requirements.

Expenses increased modestly in the quarter. However, we will take additional restructuring actions in the fourth quarter, largely due to the elimination of underwriting from major medical policies effective in January 2014 as required under the Affordable Care Act.

Revenues remained above $400 million for the second consecutive quarter, driven by strong sales across individual medical and small group products. We are pleased that Assurant Health received the accreditation from URAC, a leading independent nonprofit organization that establishes quality standards for the health care industry. This accreditation affirms our strong commitment to providing access to quality products and services. It also makes us eligible to participate on the public exchanges should we choose to do so.

At Employee Benefits, less favorable disability experience decreased earnings. The reduction was largely driven by lower claimant recovery rates but incidence levels also increased over the prior year. Experience across all other product lines ran as expected.

Net earned premiums and fees were level with the third quarter of 2012. Growth in voluntary was offset by premium declines in our employer paid business, particularly long-term disability. We continue to maintain strict pricing discipline for both new and renewal business. For the full year, we expect continued growth in our voluntary business, and additional expense actions are already underway to improve returns.

Turning to Corporate. We ended the quarter with $370 million of deployable capital at the holding company. This is after the $55 million paid for Field Asset Services and $160 million set aside for the Lifestyle Services acquisition.

Operating company dividends totaled $110 million for the quarter and $316 million or 71% of segment operating income year-to-date. We continue to anticipate that business segment dividends for full year 2013 will equal operating earnings. As always, dividends will vary depending on the capital needs of the businesses and rating agency requirements.

Our capital management priorities remain unchanged. We'll continue to evaluate selective investments in areas we are targeting for long-term profitable growth. At the same time, we'll maintain the flexibility to return capital to shareholders through share repurchases and dividends.

In the quarter, our corporate segment operating loss totaled $22 million, reflecting the funding of several growth initiatives and additional employee-related costs. We now expect our full year corporate operating loss to be approximately $75 million. For 2014, however, we expect a lower run rate due to expense savings initiatives underway and reduced pension costs.

As a reminder, consistent with our accounting policy, we'll perform our annual goodwill impairment testing during the fourth quarter. We're pleased with our progress in 2013, and we are hard at work on the additional steps that are necessary to support profitable growth in 2014 and beyond.
And with that, we'll ask the operator to open the call for questions.

Question and Answer

Operator

[Operator Instructions] And our first question will come from Chris Giovanni from Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

I guess, first question, I just wanted to ask about the expenses within Property, which continue to grow, as you alluded to, of onboarding the track loans. I wanted to first see if there are any litigation reserves kind of being built into those numbers. And then how should we think about kind of the growth of expenses here? I guess the growth there is outpacing the top line growth at a time when, clearly, that top line is going to, at some point, recede based on the changes in the rate actions, normalization of placement rates. So can you, I guess, pivot the other way on the expense side when you start to see that roll over in any order of magnitude around -- what, of the pickup in these expenses that we're seeing, is variable versus fixed?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Sure, I can take a shot at that, Chris. Maybe to start with, certainly, litigation expenses are included in our expenses. We regularly evaluate our reserves, and we feel good about where the levels of reserves are. In terms of the rest of the factors you alluded to, we're certainly onboarding a lot of loans, and that drives expenses up. We're also, as we mentioned in our prepared remarks, the things we have to do for the loans, the service requirements are going up, and all that is taking -- is costing more. So as the onboarding pace slows or the loan growth pace slows, there will be a certain amount of variable expense reduction. We're also working on a broad initiative to improve our efficiencies in lender-placed, so we have a lot of things going on that will help manage expenses going forward. But right now, we're definitely dealing with a lot of things coming at us.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And if you try to, I guess, break down sort of the 20% or so growth and expenses here year-to-date, any order of magnitude in terms of portion related to the increase in loans versus litigation or just sort of other refinements in terms of investing in the business?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

It's hard to give you an exact breakout, Chris, but certainly, I think you're getting meaningful contributions to the growth from the addition of the new loans and the increased service requirements. I think I'd point to those as the primary drivers.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then the 14% ROE in Solutions, I guess, in 4Q '14, obviously, you haven't pointed to any accretion from LSG in terms of '14. Most of that's coming through in '15. But in terms of the denominator of the calculation, is the equity from LSG included within that 14% calculation?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Equity is kind of a noisy number for us, Chris, as we do the acquisition accounting and things like that, so we're really focusing on that $50 million of earnings. We expect the increase in Solutions' ROE to come from growth in earnings more than, say, reductions in equity or things like that.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then just one last quick one for Rob. Obviously, an active quarter in terms of M&A. How are you thinking about capital returns going forward? Do you feel like with the 2 deals you've done, you're going to take a breather and get these things integrated? Or do you think there's opportunities still in the near term to get deals done to work alongside buybacks?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. So I mean, the first thing is we're pleased. We've talked about an active pipeline in M&A. I'll let Chris comment a little bit on how we thought about those acquisitions. But when they come in, they're lumpy and we happen to get a few done this quarter and feel quite good about it. Now at a high level, what we're focused on here is increasing that operating income, diversifying our sources of income because, obviously, within lender-placed, that's been the big flywheel to the operation. We think these acquisitions set up a more diversified source of earnings across our business. So when we can find that, we're going to do it. We've told you the areas we've targeted for growth, and I'll let Chris comment just a little bit on how we think about the capital deployment.

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Yes. So just a couple of things on the capital deployment. So specifically related to these 2 deals, they were exactly the kind of deals we'd like to do and we'd like to do going forward. They're moderate in size, as Rob mentioned, strategic deals that were the byproduct of negotiation and a long period of sourcing on our part as opposed to deals that come in auction form. And then also, these are deals that met our targeted return thresholds based upon a cash flow internal rate of return analysis. Now how that relates to our decisions around share repurchase, we apply the same analytical framework to the decisions around buying back stock versus deploying capital in profitable growth opportunities. We continue to think the shares are attractive. We've got significant amounts of deployable capital and a pretty good line of sight on operating dividends going forward. So we have the flexibility to do all of the -- to execute on all of our capital management priorities.

Operator

Our next question is from Jeff Schuman from KBW.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

A couple of questions about Solutions. First of all, can you just give us a little bit of reminder kind of on how mobile works? In other words, one thing I'm wondering about is, is there ever moral hazard in the business? In other words, if I file a mobile claim, do I typically just get a reconditioned version of the same model? Or are there times that I can actually be advantaged by filing a claim?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. So I think the first thing to recognize in the business is that all the programs are different that we set up. They all involve a set of terms and conditions that we want to have in place so that both our partner and we are winning together, okay? So to your specific question, is there moral hazard? Of course, we try and protect for that as best we can. There's obviously, as Mike mentioned, a lot of things going on within the space within new models, et cetera, coming out. The great thing is we think we have robust risk management capabilities and early detection around that.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

So the higher claims you're seeing currently, are they more related to theft or people breaking devices or devices malfunctioning? What's really the source of the higher claims?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Generally, the increased costs that we're dealing with tend to be damage, screen breakage and things like that. That's been the primary issue for us as opposed to theft or something like that. And I would also note that this is sort of we're seeing this at one client primarily. And I'm sorry, we've also got corrective actions underway. And those -- it's a sort of reference to a couple of your earlier points. They involve both pricing and plan design changes a la deductible increases, particularly on certain models and things like that.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And I wanted to come back, if we could, to the Solutions' ROE. You kind of pushed back a little bit on trying to dig in on the denominator there, but I think you've got this 14% ROE goal for a long time, and I think we'd all kind of like to understand kind of how the business is going to return. I think the arithmetic suggests that if $50 million of earnings was going to get you 14% ROE, that implies $1.4 billion of capital, which I think is actually less than you have today despite the business growing. So is there something about the business we should expect, the capital tends to decline as you grow or...

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Okay, so let's try and marry a couple of different ideas here. The first, as Chris mentioned, is we look at acquisitions, and we look at generating cash-on-cash returns with the business, okay? And if you look at things, what we've said is we got to make sure we acquire those in excess of our cost of capital. We need to look at them against our share price as another potential use of the funds. We think we've done that. We've also said we think we can write new business at returns in that 14% to 16% area for Solutions. And I think that when we talked about things in the second quarter of '11, we demonstrated that in our growth areas, we are meeting or exceeding those returns. Now the accounting and where things get set up, as Mike mentioned on the capital side, we've got to get that sorted out and will, but I think we're going to be in the ballpark with that 14% return in the fourth quarter by making the $50 million.

Operator

We'll take our next question from Mark Finkelstein from Evercore.

A. Mark Finkelstein
Evercore ISI, Research Division

Let me actually maybe take another crack at the $50 million in the Solutions' 14% ROE. I guess, how much of the $20 million to $25 million of annualized savings will be fully in the numbers by the fourth quarter?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

We're going to try to get these expenses as fast as possible. Certainly, as we start into the integration of LSG in Europe, that will give us some opportunities to take some out. We've also got some actions underway on the domestic side, particularly in the credit side. And then in service contract business, we've got some opportunities there. So we're very focused on getting them. And I would say, are we going to get all of it? Not sure that I would say that but we'll certainly get the vast majority of it earlier in the year so they would be in the fourth quarter numbers.

A. Mark Finkelstein
Evercore ISI, Research Division

So if I interpret it correctly, you're going to have a good chunk of the expenses in the numbers by the fourth quarter. You'll have the accretion from LSG in the numbers, and then you'll further have the impact of growth and expense savings on the U.S. Is that kind of the story?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I think there's a couple of other things. We've got, as we talked about, we've got the corrective actions on our domestic client with the mobile loss experience so that's in there. So there's a variety of things in there in addition to the expense saves.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. I guess just a quick question on Health. If there is a delay to the mandate, is that good or bad for your business?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, it's an interesting question. I don't know that we quite know. What do we know? We think our decision to stay off the exchanges was the right decision. We are seeing a lot of activity in all of our products, and sales continue to be robust. And we are actually anecdotally seeing sales with 1/1 effective dates, which is earlier than we'd expect in normal times. It's usually 30 to 45 days prior to effective date. We think that's a result of our systems are up and operating. We've provided clear line of communication for both producers and consumers to see what we're offering in the marketplace. And we feel quite good about our position.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. Maybe one final question, if I may. Just on the M&A strategy. Obviously, you have a situation where you've got a very high return business that, over time, will shrink. And I guess, what I'm curious about is, in your own view, can you grow organically fast enough to sustain the level of earnings that you're currently showing? Or do you view M&A as not just a nice to have but a must do?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Well, first, yes, again, and we've not been the best of predictors. Let's remember, our lender-placed business has grown. It's grown substantially off of where we thought it might go. And a lot of that is because Gene and his team have focused on the thing they can control, which is the number of loans we track. If you'll recall, we're probably up 5 million loans from our last Investor Day, which I think is quite impressive. Second, I think historically, we know we have free cash being generated, and we're going to deploy that, and I'll let Chris expand on that in a second. But we want to buy things that help these businesses, and we know that placement rates outside our control will ultimately go down. So yes, we want to do some acquisition, we want to grow organically and we want to do acquisitions. So Chris, you want to just chat on that?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Yes, I think the goal is to grow segment net operating income, to generate a more diversified source of that earnings stream. But on the other hand -- and M&A will play an important role on that. On the other hand, I think the key to M&A is discipline and making sure that we don't overpay. The easiest way to grow is to overpay for that growth. And if you look at the last 4 years or so, you can see that we've done a few deals, but the lion's share of our capital deployment has been in the form of share repurchase and dividends. So we've maintained that discipline. We think that's going to -- will benefit us going forward and it's going to be the combination of disciplined M&A and prudent capital deployment, in this case, share repurchase, that's going to create long-term shareholder value.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

And I think the last one was all that. We've tried to identify for investors the areas we're targeting for growth, okay? And we've been pretty clear about them, mobile, multifamily housing, voluntary and affordable health products. And you can see that the acquisitions, as Chris mentioned earlier, fall right in those categories.

Operator

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

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

I want to talk about Health some more, but I do want to ask one question on the situation with the one client in mobile. First thing, why would a client have worse experience than normal? Is this a model that they're selling that maybe is popular with teenagers or something like that? I'm thinking of my own daughter here.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

It could be a variety of things. Mike alluded to what we think the best reasons are.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I think that we're seeing...

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

I mean, you're talking about breakage, Mike, so that's what made the...

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I know. We're certainly seeing and -- but when you're think about the client's specific nature, there could be dynamics in the customer base that's different by client and things like that. But what we can point to, a lot of this business is just tracking the data and reacting to it, and that's what we're trying to do and working with our client to do that.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. And we've seen variability where claims pick up in the summer. To your point, there are younger people who have more free time, et cetera, than being in school. We're going to have that variability, but we feel confident we understand the problem and have taken the actions to correct it.

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

Okay. Is there a -- there was a throwaway line, maybe it was a throwaway line, by Mike that we expect experience to return to normal. But you can't control that. All you could do is to price for the experiences you expect it to be. Or can you somehow affect experience?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, you've got plan terms and conditions, raising deductibles and various things, so you have levers other than just pricing. We have those actions underway with this client. We've already implemented some of them. We'll keep doing it until we correct the problem.

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

Okay. And then on Health. Just a couple. Looking at -- well, first, on your essential benefits products, even though you're not on an exchange, are you mandatory take all comers with those products?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Absolutely.

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

Okay. So it would seem to me if things got delayed or the mandate was put off, then could you possibly have an issue, people not being forced to get it and therefore you have some adverse selection problems?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I think, again, trying to speculate on what would be contained if the mandate were relaxed. I don't know if they'd just say there is no mandate, if there'd be other terms and conditions. We'd have to see exactly what it would be. But remember, we've got a broad product portfolio that can address needs of consumers and we think affordability is that key issue.

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

Great, okay. And that's where I wanted to go next. Now that the pricing is out, you have your own pricing on your products and the pricing is out on the exchanges, how do you think about the attractiveness of the access products, if you will? Do they still look very attractive in light of the pricing that is now out there and assuming there is a mandate with a penalty?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I would say that we're in a situation where they will be more attractive than they've been up to this point in time.

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

Can you expand on that, Rob?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. I think that on the exchanges, prices are going to, by and large, be higher.

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

Okay. Than they have been in the private market to date?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Right.

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

But we see the pricing, right?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

It's going up.

Operator

Our next question comes from John Nadel from Sterne Agee.

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

I have questions. I want to talk about the weaker claims on this one client, but I wanted to do it a little bit differently. If I look at the 99.3 combined ratio this quarter and recognizing 98 is a target but not necessarily an exact number in any single quarter, but if I just compare the 2, it looks like the higher claims was something order of magnitude $5 million, $6 million. I mean, you mentioned some higher expenses as well, so maybe the actual dollar amount of claims is even a little bit lower than that. I'm curious how that size of incremental claims compares with the, I don't know, the gross written premium or the -- maybe it's not right to compare it yet to earned premium, maybe more the gross written from this client. Is that a reasonable question? I know you don't want to mention the client, but maybe you could just sort of size it.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, sure. So the first thing is think about it this way. For this client, the business earns monthly. So when we take actions and put them into effect, they will correct the entire block. That is point one. Point two, the split-out is between, as Mike mentioned, a change in deductible, so -- combined with a pricing change. So one will impact the -- lower the claims themselves, the other will increase the amount of premium we're collecting.

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

Understood. So is it fair to say -- to think about it this way, Rob. I mean, if the incremental claims are a couple of million dollars, that the net effect obviously of your change in deductible and your increase in pricing just essentially recaptures that couple of million dollars? Is that the way to think about it? That's the difference versus your targeted returns there?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Correct. You're making assumptions about your frequency and severity of claims, and we're trying to look at both factor. You can solve your problem by pricing or by plan design. Typically, you can't do it with just one or the other. You really have to do both.

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

So then, I guess, my next question is more about the actual process of getting these adjustments, right? So you've got early warning systems in place. You've identified the culprit, if you will, very quickly. Is this all part of the actual contract that you've got with individual clients, whereby you can automatically take these actions? Or is it something that you have to literally sit down with them, renegotiate under the terms and conditions? Because clearly, an increase in deductible and/or an increase in the fee that they're charging to the consumer could have a negative impact on consumer behavior, i.e. maybe the consumer says, "Well, I can go get a different smartphone or whatever the case may be, a different product from a different provider, and that -- and this may be -- the margin is going to force me to do that."

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Well, we work very closely with our clients obviously, John. And as Rob said, we try to structure our arrangements with the client so our interests are aligned. So we both have the same end goal. As you point out, we see the problem, we're sitting down with the clients saying what do we need to do about it, and then we can react quite rapidly to that, to make the kind of change. And certainly, you have to think about the impact on consumers. But that's sort of part of the process of managing the business, and that's why we work hand in glove with our clients. And you see variability or you react to it. That's kind of an ongoing process.

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

Yes. I guess I'm just trying to understand if that's something where you can just say even if the client's not very -- not particularly happy with it, where you can just say based on the contractual terms that you've already got in place -- listen, I know you don't like it but we're doing it.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, sure. But just think about when you hit the nail on the head with the consumer, you want to notify the consumer, you want to explain why you're taking the actions you're taking. We think that's all part of the process to maximize revenue, profitability, et cetera. You want to tell them in advance when you're doing something.

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

Yes, I know. I definitely understand the outreach. So the only other question I've got for you is really around sort of the expense initiatives. I think there's a couple of different segments where you've sort of highlighted -- it sounds like there's going to be some fourth quarter charges and none of this is fun. But you gave us the $20 million to $25 million save expected for solutions. Can you sort of size what you're expecting to be able to accomplish in, I think, it was Health and Benefits or maybe its Health, Benefits and Corporate?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, we're working on all those, John. I'm not quite ready to get -- to size them for you today, but we will certainly be reporting out to you as we firm up the plans.

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

And just as a reminder, because I think I missed it in the prepared remarks, it was either Rob or you, Mike, the $75 million of expense level in Corporate for 2013, I think you made a comment about where you directionally expect that to go next year. I just missed it, whether it was flat or down or...

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes. We think it's at the peak now, John, and they will start to decline into next year.

Operator

Our next question comes from Seth Weiss from Bank of America Merrill Lynch.

Seth M. Weiss

BofA Merrill Lynch, Research Division

I just wanted to know if you could give us any update on discussions with the FHFA and maybe where you hear they are in the process of their discussions on reform in LPI and mortgage servicing?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. Well, we've had numerous discussions with the FHFA. Remember, the mortgage servicers are our clients. They work in tandem with the FHFA. The FHFA has put out proposed regulations on changes involving commissions and reinsurance. And that's about all we know right now. I think the ball's in their court to figure out how they're going to finalize those things.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay. And the discussions from what you've heard have been centered on those 2 issues of commissions and reinsurance? It hasn't bled over into any other issues?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Not that we're aware of.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Not to our knowledge.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay. And just one clarification on Health, if maybe you could just remind us about the access products. These products, just remind me if I'm correct here, that they satisfy the individual mandate but they're not subject to the MLR. Is that the right dynamic?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. They're not subject. They are limited benefit plans, Seth, and they're not subject to the MLR. And so the people who buy them would have to pay a fine.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay. So it does not satisfy that individual mandate?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Right, right.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Correct.

Operator

And we'll take our final question from Mark Hughes from SunTrust.

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

You had suggested that the pricing on the exchanges was higher than what might be available or what would have been available in the individual market previously. Is there a way to give us a sense of magnitude of that difference?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I think it's a kind of a state-by-state comparison. It's a function of the age of the person looking to go. Remember, they've narrowed the age rating bands on what's out there. But also remember, this business is now all guaranteed issue, whereas in the past, we've been able to underwrite. So we believe those factors will lead to higher rates...

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

And in some cases, benefits are higher, too.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Absolutely.

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

Have you -- did you have any conclusions internally when you look at those things across the states? Any feeling for what the magnitude of that difference is?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Again, there's -- yes, there's been a lot put out. I think the best place to probably turn is the Society of Actuaries study. I don't recall quite what their number was, but it was a significant increase to the cost in their estimation. But until we actually see who shows up, you're speculating on who the enrollees are a little bit. So it's kind of a guessing game, and we're going to find out here over the next few months.

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

So you haven't been able to do a survey of pricing, anything like that?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, sure, we definitely have -- remember, we have to set our prices for all essential health benefit plans. Our prices are higher than they were, okay? And it's very specific around plan of benefits, age of the person and geography.

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

Yes, okay. And then a final question. The opportunity to continue to take share in Specialty Property, you point out that's been a nice driver of growth over the last 12, 24 months. As we look out ahead and we think about the movement within the industry and your customer base, do you think there's as much opportunity to take share? Or should that stabilize a little bit?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, I think the big key is our alignment with the market leaders, both the money center banks and the specialty servicers, has positioned us well as portfolios move around. We think we continue to be positioned that way, but I don't know of any specific portfolios that are considering moving at this time.

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

When you look through that market, the position of your partners, do you think they will continue to take share?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

We think we're positioned with the industry leaders. So to the extent they can continue to grow and remain leaders, that we would grow with them.

Thanks for joining us this morning. We look forward to updating you on key milestones in the months ahead. Please reach out to Francesca and Suzanne with additional questions.

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