S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

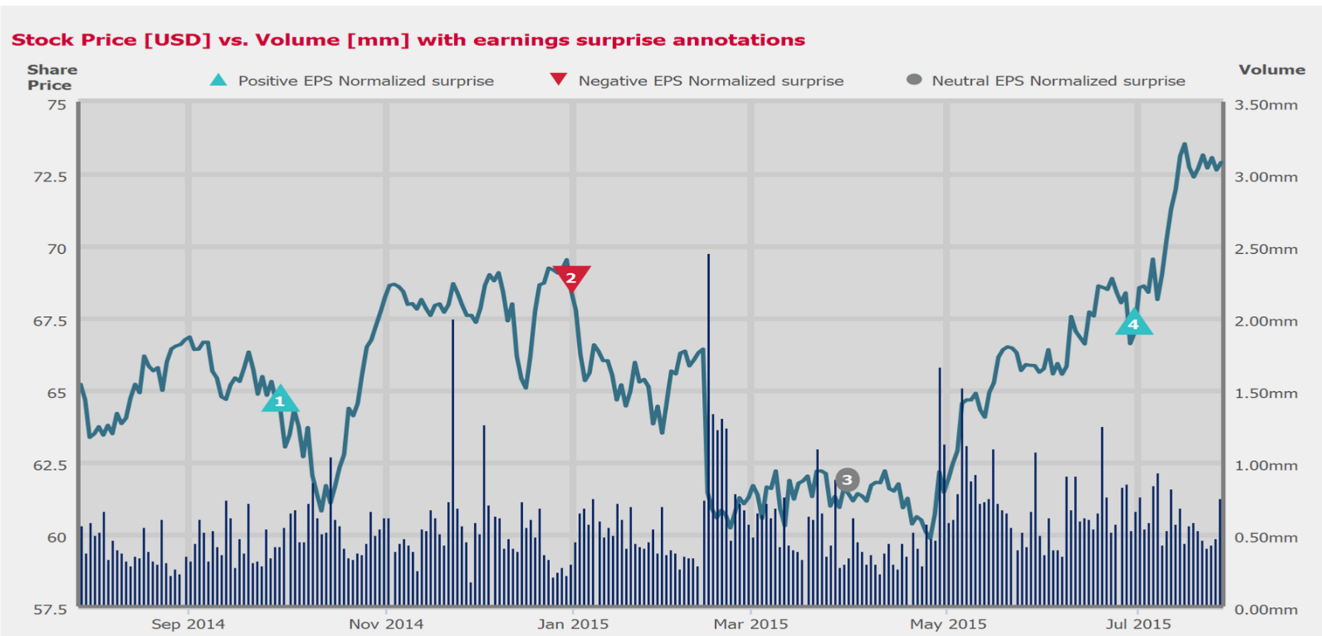
FQ3 2015 Earnings Call Transcripts

Wednesday, October 28, 2015 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.57	1.71	▲8.92	1.61	6.94	6.72
Revenue (mm)	2141.58	1982.96	▼(7.41 %)	2535.00	8085.77	7577.23

Currency: USD
Consensus as of Oct-28-2015 11:04 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2014	1.61	1.82	▲13.04 %
FQ4 2014	1.66	0.87	▼(47.59 %)
FQ1 2015	0.63	0.63	●0.00 %
FQ2 2015	1.60	2.07	▲29.38 %

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

ANALYSTS

John Matthew Nadel
Piper Jaffray Companies, Research Division

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

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

Sean Robert Dargan
Macquarie Research

Seth M. Weiss
BofA Merrill Lynch, Research Division

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

Presentation

Operator

Good morning. Welcome to Assurant's Third Quarter 2015 Earnings Conference Call and Webcast. [Operator Instructions] It is now my pleasure to turn the floor over to Francesca Luthi, Executive Vice President, Chief Communication and Marketing Officer. You may begin.

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

Thank you, Sean, and good morning, everyone. We look forward to discussing our third quarter 2015 results with you today.

Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; and Chris Pagano, our Chief Financial Officer and Treasurer.

Yesterday afternoon, we issued a news release announcing our third quarter results. The release and corresponding financial supplement are available at assurant.com.

Beginning last quarter, we revised the presentation of Assurant's results to reflect our focus on housing and lifestyle specialty offerings. As a reminder, results for Assurant Health runoff operations are included only in net income and are no longer reflected in net operating income. We will continue to report Assurant Employee Benefits under operating results until the sale of that business is closed, which we expect to occur by the end of the first quarter 2016.

Today's call will contain 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 posted at assurant.com.

We'll begin our call this morning with brief remarks from Alan and Chris 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 2014 Form 10-K, first and second quarter and upcoming third 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.

Our Housing and Lifestyle specialty protection businesses within Solutions and Specialty Property delivered solid results as we position the company for long-term profitable growth.

During the third quarter, we took significant actions to support our strategic realignment and transformation of Assurant. We reached a definitive agreement with Sun Life Financial for the purchase of Assurant Employee Benefits. The transaction will provide Assurant with $1 billion of net proceeds, including capital releases, to support profitable growth long term. Preparations for the divestiture and day one integration are progressing as planned. All required regulatory filings have been submitted, and we hope to receive approval to close the transaction by the end of the first quarter 2016.

At Assurant Health, we completed the sale of our supplemental and self-funded businesses to National General on October 1 for $14 million. The challenges at Health increased during the quarter with higher-than-expected frequency and severity of claims, which will require capital infusions in the fourth quarter. While this development is disappointing, the wind-down process is on track. We still expect to substantially exit the health insurance market next year and release the remaining capital supporting the business. The sale of Benefits and wind-down of our Health operations support our strategic focus on specialty housing and lifestyle markets. We see many opportunities ahead to deliver attractive returns while providing Assurant with greater flexibility to redeploy capital for the benefit of shareholders.

Our enhanced capital management plan announced in September reinforces our confidence in our ongoing businesses as well as our commitment to disciplined deployment over the long term. During the third quarter, we also established an organizational framework that will support our realignment and profitable growth. The leadership changes announced in September add senior-level expertise to our management committee in 4 critical functions: enterprise risk management; technology; strategy and business development; and communication and marketing. These moves set the framework so that we can be more agile, operate more cost efficiently and accelerate the transformation of Assurant.

I'm especially pleased that Chris will take on the Chief Risk Officer role once the CFO successor is named. Our core risk management capability, which Chris developed and championed, provides a great foundation from which we will be able to expand our global enterprise risk practices. Our external searches for Chris' successor as CFO and for our Chief Technology Officer are moving ahead. We believe our management committee will benefit from additional outside perspective, especially given how essential technology and digital transformation are to Assurant's long-term strategy and success in Housing and Lifestyle.

The promotions of Peter Walker and Francesca Luthi also reflect our deep bench of talent at Assurant and underscore the critical importance of strategy and communication and marketing to our ongoing success. These changes will allow our business lines to focus predominantly on critical client relationships, sales and exceptional customer service.

Looking ahead, we remain optimistic about the opportunities at Assurant. During the third quarter, we continue to grow market share, add client partnerships and expand our suite of global offerings.

At Assurant Solutions, we launched new mobile protection programs with Google and Samsung. While the programs will start small, these partnerships represent important steps in our global expansion of Connected Living. As a leading provider of vehicle protection services, we also see opportunities to further scale and strengthen our capabilities. To support our strategy, we acquired Coast To Coast, an auto claims administrator, serving more than 1,000 clients across North America. We will leverage their robust administrative platform to extend our market share.

At Specialty Property, we continue to transform our lender-placed platform, which is core to our housing offerings. We are starting to achieve savings that will accelerate and more than offset future investments.

In October, we exited the vehicle title business, which was a nongrowth area for us. This business represented less than $10 million of annualized fee income and was sold for $19 million in cash proceeds. This is yet another example of our active and disciplined portfolio management.

Momentum in Property's targeted growth areas continued in the third quarter. Multi-family housing, again, will deliver double-digit growth. We anticipate mortgage solutions will contribute close to $300 million in fee income this year. This represents more than 20% organic growth from 2014. We are pleased with our progress in these areas and believe we are well positioned for the future.

Now I'll offer some highlights from results year-to-date and then Chris will provide additional details. Annualized operating ROE, excluding AOCI, was 12.5%. As a reminder, this excludes results from Health runoff operations. Assurant's net earned premiums and fees for the 9 months of 2015 decreased modestly after adjusting for Health and the sale of American Reliable. This decline reflects the ongoing normalization of lender-placed. Fee income increased 27% as we broadened our service offerings beyond traditional insurance. Cash flow remained strong, namely from Specialty Property and Solutions, as we ended the quarter with $520 million of holding company capital.

For the remainder of this year and into 2016, we will focus on executing our strategy to build a stronger Assurant for the future. Next year, absent significant hurricane activity, we believe we can sustain results in our ongoing businesses by expanding share in our targeted areas as we manage the normalization of lender-placed and other runoff operations.

We will continue to work to eliminate the expense overhang from Health and Employee Benefits. By establishing a more efficient organization model, we will maximize resources in 2016 and beyond. These actions will allow us to realize our aspirations of generating top quartile shareholder returns. We're optimistic about the future and encouraged by the pace of progress.

And now I'll turn to Chris, who will review results for the quarter in more detail. Chris?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Thanks, Alan.

I'll start with Solutions, where results were in line with our expectations. Excluding a $4.5 million net tax benefit from our international operations, segment earnings totaled $48 million for the quarter. This is compared to $55 million in the prior year period after adjusting for a $2.7 million asset impairment charge. The $7 million decline was driven by lower service contract volume at traditional retailers as consumers increasingly prefer e-commerce shopping.

Earnings from mobile increased, despite the previously disclosed loss of a domestic tablet program. The improvement was driven by growth in covered devices and sustained client marketing activity.

Revenues at Solutions were down slightly compared to last year. This was due to the tablet program loss, foreign exchange volatility and declines at retailers. The decrease was partially offset by more than 20% growth in the vehicle service contract business from higher production at new and existing clients.

Fee income also increased 21%, driven by mobile programs, where we continue to expand our repair and logistics offerings.

Looking ahead to 2016, we remain focused on driving sustainable, profitable growth. We believe our integrated Connected Living offerings, along with improved international results and expense discipline, will be key drivers as we absorb larger declines from retail clients and the runoff of our domestic credit operations.

Now let's turn to Specialty Property, where results came in stronger than expected. Net operating income declined $17 million to $87 million. This was driven by ongoing lender-placed normalization and client contract changes noted in previous quarters. Overall results, however, benefited from lower catastrophe reinsurance costs, no hurricane activity and lower non-catastrophe losses. Lower frequency and severity trends contributed to the improved loss experience. We were also encouraged by the increasing contributions from multi-family housing and mortgage solutions. Net earned premiums and fees decreased 12% after adjusting for the sale of American Reliable. This was due to declines in lender-placed, including the previously disclosed loss of client business. The impact was greater in the third quarter as a higher volume of policies for this client were renewed and transferred to the new carrier. We expect the transition of these policies to be largely complete by year-end. Specialty Property fee income increased 21% year-over-year. This was primarily due to growth in our property preservation offerings as we added new clients and leveraged cross-selling opportunities.

Turning to expenses. Our reported expense ratio increased 520 basis points year-over-year to around 52%. 1/3 of the increase was due to a greater proportion of fee-based business, with the balance primarily caused by lower lender-placed premiums. Excluding mortgage solutions, our insurance expense ratio increased 300 basis points to roughly 45%. We've made additional investments in our lender-placed platform and were able to generate net savings in the third quarter with more efficiency gains expected into 2016. These investments will help to keep our insurance expense ratio in the mid-40s longer term as we modify the infrastructure to align with the lender-placed declines. We are pleased with Specialty Property's results thus far this year. In 2016, our focus will be to grow by adding new clients and increasing penetration in mortgage solutions and multi-family housing, while executing our lender-placed transformation.

Results in Employee Benefits were in line with expectations. Earnings totaled $10 million for the quarter, a slight decline from third quarter 2014, due to less favorable Dental and Disability results. Net earned premiums and fee income increased modestly as expected declines in employer-paid products were more than offset by strong Voluntary growth. Expansion of Voluntary continues to be driven by a diverse product offering and a robust benefits communication and administration platform, which we believe complements Sun Life's existing business. We are committed to ensuring a seamless transition for brokers, clients and employees as we prepare to close the sale by the end of the first quarter 2016.

As we preannounced last week, Assurant Health runoff operations posted a net loss of $144 million for the third quarter. We experienced higher-than-expected frequency and severity of claims on 2015 ACA individual major medical policies. Third quarter results also included a strengthening of the premium deficiency reserves to account for higher estimated future losses and other direct expenses through 2017. We incurred $17 million after-tax in severance and other exit-related charges. In order to maintain adequate statutory surplus levels, we will infuse an estimated $200 million into Health in the fourth quarter of this year. As of January 1, 2016, our block of ACA individual major medical policies will terminate. We expect most claims related to these policies to be paid by the end of the second quarter. In the months ahead, we will continue to refine our estimates for the premium deficiency reserves based on actual loss experience, recoverables under the 2015 ACA risk mitigation programs and additional exit-related charges. At the same time, we are evaluating alternative options to limit the length and expenses associated with the wind-down period. As noted in the release, recoverables for 2015 policies under reinsurance and risk-adjuster programs totaled $371 million as of September 30, 2015. Consistent with prior quarters, we did not accrue any net recoverables for the risk corridors. The majority of reimbursements for 2015 recoverables are expected to be paid in the third quarter of 2016. We will continue to monitor for any updates to that timetable or changes in payment authorization.

Moving to Corporate. We ended September with $270 million of deployable capital. During the third quarter, segment dividends totaled $188 million, reflecting solid profitability in our ongoing businesses and capital releases from lender placed. We made additional investments in our vehicle service contract capabilities and returned $47 million to shareholders in the form of dividends and buybacks. Additionally, in the first 3 weeks of October, we bought $74 million worth of stock. Year-to-date, we've repurchased 4.2 million shares, representing 6% of total shares outstanding. We continue to view the stock as attractively priced. Over the course of the next 18 months, we will deploy capital prudently through a combination of share buybacks, common stock dividends and investments in Housing and Lifestyle. As always, the timing and pace of our buyback programs take into account a variety of factors. We will continue to monitor claims development at Health and as needed, factor that into our decision making. The Corporate loss for the quarter increased to $27 million, primarily reflecting an expected reversal of tax benefits recorded in the first half of this year and $2.5 million of strategic repositioning costs. For the full year, the net operating loss for Corporate is expected to be around $65 million, excluding repositioning costs.

Our focus for the remainder of 2015 is to position the company for profitable growth. We will do so while successfully managing the upcoming sale of Employee Benefits and continuing the exit of the health insurance market. We believe all of the actions underway are critical to building a stronger company for the future.
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 Michael Kovac from Goldman Sachs.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

So lots of positive developments with the sale of Benefits and the updated deployment guidance and some strong operating results in the quarter, but one place that we've sort of seen a continued drag is the Health business. And I'm wondering if you could maybe discuss in a little more detail what made you make the changes in this quarter versus really just 90 days ago when you set up the PDR. What are you seeing? Is there sort of third-party data that maybe you got at this point that you didn't have at that?

Alan B. Colberg
President, CEO & Director

Yes. Appreciate the question. Maybe I'll start and then, Chris, I'll let you go into a little more detail. I mean, the challenges in the Health business are an industry challenge as much as an Assurant challenge. And you need to remember, we all need to remember, this is uncharted territory for the industry. These are policies that were originally priced and designed in the second quarter of 2014 to be sold this year. And the market is still evolving and people are still evolving what's happening in the marketplace. I think the results and the variability we've seen kind of reaffirm our decision to exit, and we're very focused on now executing that wind-down as best as we can. But Chris, what would you add on the quarter?

Christopher J. Pagano
Executive VP & Chief Risk Officer

No. I guess the one thing I would comment on is, again, the PDR is a forward-looking measure, and so what we saw in the third quarter was higher-than-expected claims frequency and severity. And in addition to increasing claim reserves for a third quarter activity, we then decided that based upon that activity, we felt it was prudent to increase the PDR to reflect future loss experience and then some additional exit costs. So again, we're not really expecting an improvement in the fourth quarter, but our best estimate as of this point in time is captured in the PDR that we -- the 169 [ph] PDR that we've got on for -- at the end of third quarter.

Alan B. Colberg
President, CEO & Director

I think the last thing I'd say on this, we are now on track, as we've said, to substantially exit the Health business by the end of 2016.

Michael Edward Kovac
Goldman Sachs Group Inc., Research Division

That's helpful. And then, if I could, switching to Solutions. Look like a number of new contracts that you've established in the quarter. One place that, I guess, I still had questions was the international business. That's the place that you've sort of continued to run over a 100% combined ratio. I don't believe you called out any one-timers this quarter. Can you kind of discuss what activities you're taking to improve the profitability and what tools you have at your disposal to maybe drive that combined ratio down over time?

Alan B. Colberg
President, CEO & Director

Yes. We're really focused in Solutions and in Property on adding new growth factors, new clients, extending our offerings and really living this being more than an insurance company, which we are. With that said, FX volatility and some other challenges going on in international, Chris, you might want to comment on that.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. I guess the -- we continue to believe we can achieve a 95% combined ratio longer term. This year, there's been a few one-offs in the earlier quarters, but we continue to move toward that. We're on track there and think longer term we can get to the 95%.

Operator

And your next question comes from Seth Weiss from Bank of America.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Quick one on Health. Can you just update us on where stat capital is at the end of this quarter? I believe it was $340 million as of the midpoint of the year?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So we ended third quarter with around $200 million of statutory capital. Again, that is pre-infusion. The $200 million that we talked about on the -- in the prepared remarks is a fourth quarter level. And again, we continue -- this is our best estimate. Keep in mind, the capital infusion is based upon the stat PDR calculation, which is a bit more onerous and thorough with respect to what can be included. So again, best estimate, to the extent that we need to infuse more down the road, we're going to continue to monitor claims activity and make the necessary adjustments.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay. And then just, I guess, on how the stat accounting works. Is the theory that the -- whatever stat charge you took should kind of make stat earnings run at a 0 level for the next 6 quarters? Or should we expect to see a little bit more bleed-through on losses on the stat side?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So the losses that are captured in the stat PDR, stat measure of PDR, are more comprehensive than on the GAAP side. So again, the $400 million is our best estimate right now. There will be some variability. But again, all of these policies terminate at the end of the year and capital is driven primarily by premiums. So as the business -- as we exit the business, the capital will be released. We expect to get the majority of it back towards the end of 2016 with, again, the caveat being that we're still monitoring the claims experience in the fourth quarter.

Alan B. Colberg
President, CEO & Director

And let me just clarify, Chris. I think you said $400 million. We put -- we're planning to put $200 million additional capital in, in the fourth quarter, which brings us to a total stat capital of $400 million.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Absolutely, sorry.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay, great. And if I could ask one on the Specialty Property, specifically thinking about the decline in placement rate, which is 30 basis points year-over-year. I understand this lost client portfolio of 600,000 loans from last year had a pretty substantial impact. Could you highlight or segregate out how much of the 30 basis points decline is attributable to that one client portfolio?

Christopher J. Pagano
Executive VP & Chief Risk Officer

I don't think we've provided that. I mean, I think -- the way I think about it is, this was a higher-than-normal renewal quarter for that particular client, which had a disproportionate contribution to the client and the placement rate quarter-over-quarter. But the one thing you really want to focus on is 1.8 to 2.1 long term. That's where we think this is going. And again, we are -- in years past, we were early and inaccurate predictors of the normalization. We feel like it is well underway now, and we're taking the steps to adjust the infrastructure and then reposition the -- our offerings around some of the fee-based business that we've talked about with respect to mortgage solutions.

Operator

Your next question comes from Mark Hughes from SunTrust Robinson Humphrey.

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

Could you give us some sense on -- both sides of the business, you've described some very nice puts and takes. Could you give us a sense of where you think sales, the top line should trend in 2016? Just sort of very roughly, are we going to see positive growth in Solutions? Where would you expect Property to shake out?

Alan B. Colberg
President, CEO & Director

So we'll, at the fourth quarter earnings call in February, we'll give an outlook for 2016 that will more specifically address that question. What I would reiterate is something I said in the call remarks, which is that as we think about next year broadly, absent cats or significant hurricane activity, we believe we can sustain results in our ongoing businesses really through the combination of growth and market share expansion in Property and Solutions, which offsets the ongoing lender-placed normalization in some of the other runoff operations we have around credit and service contracts.

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

And that -- is that adjusting for the divestiture of the Benefits business? Use sustained results in the Property and Solutions segments?

Alan B. Colberg
President, CEO & Director

In the ongoing businesses, yes. And we'll provide more specifics on how we think about '16 on that February earnings call for the fourth quarter.

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

Okay. And then, within Solutions, the shift away from traditional retailers to e-commerce, I think you mentioned a point about absorbing larger declines from traditional retail. Where do we stand in that shift? How much more do you have to absorb? Obviously, you're offsetting that with new customers. How should we think about that?

Alan B. Colberg
President, CEO & Director

Yes. It's a long process that's been underway for a few years now and we think will continue to play out over the next couple of years. We've been very focused on broadening our distribution to be everywhere the consumer wants to go. And I think, as you've seen from some of the announcements of our new partnerships, we feel like the Solutions team is making great progress in doing that. But more to come on the traditional retailers.

Operator

[Operator Instructions] Your next question comes from Sean Dargan with Macquarie.

Sean Robert Dargan
Macquarie Research

Just as we look out to the fourth quarter, just wanted to get your initial thoughts on South Carolina flooding and the hurricane that eventually came through Texas. Are these probably going to be reportable cat events for you?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. I think our best guess at this point is they'll be reportable cat events. In the case of the flooding, flood claims tend to take some time to -- for experience to evolve, so it takes a little bit longer for us to figure out the full estimate. But we do expect they'll be -- both be reportable cat events, not certainly necessarily that material, but they will affect results in the fourth quarter.

Sean Robert Dargan
Macquarie Research

Okay. And then can you just give us more color on how the fee businesses you're layering in, in Property are going to allow you to keep results probably consistent with 2015? I mean, I guess it depends on where one has the placement rate going. But does that imply you're going to need to acquire more fee-based businesses over the next 6 months or so to be able to keep earnings level?

Alan B. Colberg
President, CEO & Director

So Sean, let me just make sure I was clear on what I said about '16, which is, when we talk about being able to sustain results, that's for the Assurant ongoing businesses. It's not a specific comment on Property versus Solutions. What we think about is the overall portfolio of ongoing businesses. The positive in the fee income, as we -- I mentioned on the call, we've had very strong organic growth building off of those selective M&A deals we did in 2013 and 2014 to create the mortgage solutions business. And then, as you saw, we did another very small M&A deal in the quarter with Coast To Coast, really a similar thing, building additional fee income around our vehicle service contract business. So good organic growth in our fee income businesses, probably continue very selective extensions of what we do around these businesses.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. Sean, the other thing I would just point out there. Remember that there's intangible amortization that's going to occur in both Property and Solutions that's going to be a drag on NOI, but not on cash flow, which is how we're thinking about acquisitions on a go-forward basis.

Sean Robert Dargan
Macquarie Research

Got it. And just one follow-up. The type of businesses that you're adding to Property, are they dependent on origination levels, both refi and purchase? Because if you look at like MBA forecast, total originations are forecasted to come down because if interest rates rise, presumably refis will crawl to -- or will stop to a crawl almost. So I'm just wondering how sensitive you are to mortgage origination levels.

Alan B. Colberg
President, CEO & Director

So a couple of thoughts on that. If you think about the property preservation business, that is really not related to that level of origination at all. The appraisal business is somewhat related to the origination activity. But more importantly, we're focused on gaining market share, which we've been doing, as we said, 20% plus growth this year, really driven by our strong relationships and partnerships with mortgage servicers that allows us to cross-sell these services in. So we feel good about our ability to continue to grow no matter what the external environment is for that business.

Operator

And the last question comes from Steven Schwartz with Raymond James.

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

I wanted to follow up on Mark Hughes' question about the Solutions and the brick-and-mortar versus Internet. Maybe we can delve into that a little bit more. I'm really wondering, what is the mix shift going on? Is it a shift from some existing retailer that you already have on board going -- more of their sales going to Internet, which makes sense, and you doing not as well on the Internet side as you had done on the bricks-and-mortar side? Or is this a case of, I don't know, business going to iPads.com or something like that, somebody that you have no relationship whatsoever?

Alan B. Colberg
President, CEO & Director

So a lot of dynamics going on. Really, what's driving all of this is consumer behavior is changing, and increasingly, consumers are buying digitally, whether that's from a traditional retailer's digital site or whether that's from these new and emerging digital players. What we have been doing, I think, very effectively in Solutions team is building these relationships and partnerships with the digital providers. We've talked in the past about eBay, Google, we mentioned today. And there's really a rotation going on from traditional retailers to these digital retailers, and we feel well positioned. Certainly something -- when we next have an Investor Day in March, which I'll talk about in a minute, we'll provide a lot more detail on how this business is evolving.

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

Okay. Just one more follow-up on that. Alan, do you -- my assumption would be that you would tend to do worse on sales, Internet sales placement, if you want to call it that, because there's not a human offering the product. Is that a fair statement?

Alan B. Colberg
President, CEO & Director

Not necessarily. It varies a lot by retailer and digital retailer. I wouldn't want to generalize like that.

Operator

Your next question comes from John Nadel, Piper Jaffray.

John Matthew Nadel
Piper Jaffray Companies, Research Division

It's a constant. The -- I guess, I have a couple of questions. The first one, I wanted to think about the non-cat loss ratio or benefit ratio within Specialty Property. You guys have -- you guys talked about the idea that non-catastrophe weather and even non-weather-related claims activity was pretty favorable this quarter. A 35% benefit ratio, I think, seems to be an unsustainable level. I just -- there's a lot of moving parts within the segment. I'm wondering if you can give us a better sense for, if activity was more normalized, about what level that 35% should be going forward.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Well, it's -- we think that the mid-30s is sort of the longer-term rate. Keep in mind a couple of things. So when you talk about non-cat loss ratio, there's mild weather. That contributes to that, which, of course, is not something we can control. But then we're seeing nationwide trends around fire, theft and vandalism that are positive. Just keep in mind, however, that longer term, lower premium is going to be the bigger driver of that percentage and so it will drift higher as the normalization continues.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Yes. Just -- I guess, I'm just trying to understand, if this was a more normal quarter, whether weather is mild or not, or maybe let's forget about the quarter and think about it over the course of a year, should 35% be more like 38% or 40%? Or I'm trying to get a sense for how big the order of magnitude is.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. I mean, I think that's fair -- I mean, clearly, the quarter benefited from lower -- a lower non-cat loss ratio, whether it's 3% or 5%. I mean, again, that's subject to debate. But again, it's the lower premium we're talking about, some of the expense take-up that we're focused on. And '15 has -- but '15 has absolutely been better than it's been in the past several years.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Yes, okay. Then on the Health side, I was hoping you could give us a sense, maybe in percentage terms or some way of thinking about the order of magnitude, how much worse in third quarter did actual claims activity get relative to either the second quarter or the first half of the year that resulted in this pretty significant increase, not only in the actual claims, but in your expectations for claims going forward?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Well, again -- so if you think about the total -- the reserve strengthening and the adjustment to the premium reserve deficiency -- deficiency reserve, excuse me, we're roughly 50-50. I mean, claims were 30% higher in the third quarter. Caused us to strengthen...

John Matthew Nadel
Piper Jaffray Companies, Research Division

That's 30% higher quarter-over-quarter versus 2Q?

Christopher J. Pagano
Executive VP & Chief Risk Officer

That's correct, yes. And again, as Alan points out, certainly, the results were disappointing, but this is uncharted territory. And I think -- the way we think about it is we have another quarter of claims, and then this business moves into -- we'll substantially be out of it. Premiums will drop significantly starting 1/1 as none of these policies will renew. We'll manage the claims process and the recoverables into the first half of '16 and then expect to get majority of the statutory capital back over the second half of '16 into early '17.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Maybe -- can I ask you maybe this way? So obviously, based on the accruals and assumptions you've got built into the balance sheet at this point for Health and really more thinking about it on a statutory basis, if things played out exactly as you expect, that $400 million, inclusive of the infusion you're going to make this quarter, that $400 million will come back, or something very close to that $400 million, will come back to the parent in late 2016. How much worse would claims activity need to get to exhaust the entirety of that $400 million? Is it another 30%? Or is it 100% or something? Can you give us...

Alan B. Colberg
President, CEO & Director

John, I think the way we think about it is, certainly, there's potential for additional variability, given this is uncharted waters for the industry. We're monitoring it closely. We've assumed that things don't get better from where they are today. Will that assumption ultimately be right? There's no way to know, but we are monitoring closely. The other important thing here is that we are honoring all of our obligations to our policyholders as we wind-down this business.

John Matthew Nadel
Piper Jaffray Companies, Research Division

I hear you, Alan. That's -- I mean, I get that's a very important message. Just trying to get a sense for how much buffer that $400 million would provide shareholders against a further capital infusion if things worsen.

Alan B. Colberg
President, CEO & Director

We can't really speculate on it. As we've said, there's variability potential here. We've assumed that the claims remain elevated as we look forward.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Okay. And then I know we'll talk more about an outlook for 2016 when you report your fourth quarter earnings in a few months. But can you give us a sense, directionally at least, thinking about the Corporate operating loss of $65 million, give or take, for 2015, ex some of the sale-related costs, how should we think about that trending? Because I assume you'll have to absorb some overhead that was formerly allocated to the Benefits and the Health business. But I'd also, I guess, on the other side, assume that you'd be doing some cutting.

Alan B. Colberg
President, CEO & Director

Yes. So maybe let me answer that by giving you a little bit of a sense of our broader 2016 priorities because we're very positive and bullish on how this company is evolving. First thing we're really focused on as we look to next year is completing the strategic repositioning. That's completing the sale of AEB, which we expect to happen in the first quarter, completing the substantial wind-down and exit of Health and really continuing to expand and grow our positions in Housing and Lifestyle where we're very well positioned for taking market share and growing with growing markets. We are working hard to eliminate the overhang from Health and Employee Benefits, some of the organizational changes that we announced last month and that allow us to really create a more agile, more efficient organization model. When you put all that together, that's how we're comfortable of saying we think we can sustain results absent a cat next year in our ongoing businesses, well absorbing the continuing normalization of lender-placed and some of the other runoffs in the retail business.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Okay, understood. And just to clarify, so assuming -- I think another way of saying that is that you'd expect relatively flat earnings. Is -- that is inclusive of Corporate or is that just talking about Solutions and Specialty Property?

Alan B. Colberg
President, CEO & Director

I'm talking about the entire Assurant company.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Got it, okay. And then real quick, one last one for you. I know it's a little bit backward-looking here, but your capital position was very strong. You obviously had very -- you had a lot of -- you exhibited a lot of confidence, even before the announced sale of the Benefits business to Sun Life. You exhibited a lot of confidence in that process. I'm just curious, was there anything specific that held down the buyback in the third quarter, whether it was blackout, self-imposed related to the Benefits business sale or just conservatism, given it was hurricane season, some way of thinking about that?

Alan B. Colberg
President, CEO & Director

Let me start broadly on capital and then I'll ask Chris to comment more specifically. If you think about capital management and deployment, that's been a cornerstone of Assurant's strategy for many years and we've got a very strong track record. As we mentioned, we've bought back 6% of the shares year-to-date in 2015. We announced a significant enhancement of our capital management around the timing of the Benefits sale with the increase in the dividend as well as the increase in the buyback authorization. We don't tend to focus as much on quarter-to-quarter as we do think about returning capital over time. But Chris, what would you add?

Christopher J. Pagano
Executive VP & Chief Risk Officer

No, I mean, I think -- and John, we've talked about this before, but again, this is a long-term process. If you look back over our track record the last 5 or 6 years, you can see a willingness to return capital to shareholders via share repurchase. We continue to think the stock's attractive. We want to be in the market consistently. Our pattern over the years has been to be a bit conservative heading into cat season. We're now coming out of cat season. We've got better visibility around operating earnings and the availability of those earnings as segment dividends. We've got the issue with Health and the infusion that it's going to require. And then, again, we look out -- in the first quarter, there's going to be $1 billion of proceeds and release of capital from the sale of Benefits, future operating earnings and then the return of capital from Health as we run the business off in -- and exit by the end of 2016. So again, they're not quarter-over-quarter, but if you look at the 12- to 18-month time horizon, you can see ample financial flexibility to execute on our capital management priorities.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Yes. No, I totally understand. Like I said, I recognized it was a backward-looking question, but it's the most popular question I got last night after you reported.

Operator

Your next question comes from Seth Weiss from Bank of America.

Seth M. Weiss
BofA Merrill Lynch, Research Division

And maybe just a follow-up on John's question on capital deployment and think forward-looking over the next couple of quarters. You'll get a lot of capital the end of the first quarter, but if we think about the next couple of quarters and potentially some limits on capital return, how would you think about that $250 million risk buffer that you set up or that you referred to, given that we'll get a good deal of capital in the first quarter and that there's now going to be higher infusion of capital in Health, which should help manage at least some of the earnings volatility in the next couple of quarters?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. So I mean, I think really we're talking about a timing issue. And again, we've kind of talked about this time horizon, 12 to 18 months through the first quarter of '17, basically and holistically how you think about inflows and outflows. In terms of the fourth quarter, again, we've talked about the Health infusion of $200 million. We've got some earnings from the operating segments that are going to come up. We tend to be -- we tend to back-end load our operating segment dividends. We've done that many, many years and feel pretty good about what we see in the fourth quarter. It's been a fairly light cat season, although we will have some cat losses in the fourth quarter to address. But really, when I think about it, I don't want to think about it one quarter versus the next, but just more broadly over a, again, in this case, 12 to 18 months, with good line of sight on some substantial capital inflows.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay, great. But fair to say that you intend to at least maintain that $250 million buffer next quarter?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Again, when I put -- I'll put on my CRO hat now a little bit early, but I think that was a byproduct of some work we did in the early phases, our enterprise risk management initiative. We continue to evaluate it, but at this point feel it's still the right number for us on a go-forward basis.

Operator

And your last question comes from Mark Hughes with SunTrust Robinson Humphrey.

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

The recoverables in the Health business, I think you'd mentioned $370 million. Was that right, the risk corridor and the reinsurance recoverables?

Christopher J. Pagano
Executive VP & Chief Risk Officer

The risk adjuster and the reinsurance recoverable, Mark. So roughly -- it's $160 million or so of risk adjuster for '15 and about $210 million for the reinsurance recoverable.

Alan B. Colberg
President, CEO & Director

And we have no net risk corridor on our books.

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

Right. And so you -- assuming everything works out, you get your $200 million in stat capital back, the extra $200 million putting in, in 4Q. And then those other recoverables, those should show up roughly 3Q? That's all additional cash that's available for other purposes. Is that right?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So there's cash and the return of capital. So I think -- when you think about how much capital we're going to get back out of the business, it's bounded by the $400 million currently with any future adjustments to be made as claims emerge.

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

Right. But then you pulled out -- essentially working capital out of the business as well in the form of these recoverables. Is that right?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Well, those are offset to claims we've already paid. So it will not -- that's not money that'll come back up to the holding company.

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

Okay. Where does that cash sit once you recover it?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Again, it's against -- these are against paid claims within the Health segment.

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

Okay. Right, okay. And then the -- your -- the Health business, did you send out cancellation notices to consumers? Did that spark some additional flurry of utilization? And if so, what was the timing on that? Has that stabilized?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So we did announce to our insurers that we were exiting the Health business. We're looking at the contributing factors. I mean, again, in terms of what caused the increase in claims activity, there's a seasonality element that always comes into play towards the -- in the second half. But again, back to the PDR is our best estimate, factoring in the information we have available now and our best estimate of the loss experience and expenses going forward.

Alan B. Colberg
President, CEO & Director

Yes. The other thing I'd add just quickly is if you look at the industry data we have, which is lagged, so it's not up-to-date, it lags a few months, the industry is experiencing higher elevated claims as well. So we can't completely parse apart everything in it, but it's an industry-wide issue as well.

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

And when would you have notified the insureds?

Alan B. Colberg
President, CEO & Director

We started all around early June after our announcement.

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

Okay. And then I may need to go back to accounting 101, but on the recoverables, you've already paid the claims. You've got certain recoverables. Once you get paid, is that not cash in your pocket or am I thinking about that the wrong way?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, that's correct.

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

Okay. So it is incremental cash that you will receive, the $360 million, $370 million or so will be cash that you could then use for other purposes. It won't be earnings, but it'll be cash that you'll receive.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Well, it's cash that's been paid out that we're then going to get money back on. We will have paid that out over the course of the 2015 cohort claims experience.

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

Exactly. And then the cash will be coming back to you, so to speak, or you'll be refunded the -- on that particular amount, so that cash will then be available for other purposes.

Christopher J. Pagano
Executive VP & Chief Risk Officer

That's correct. We have a recoverable on the books -- that will become cash.

Alan B. Colberg
President, CEO & Director
All right. Well, thanks, everyone, for participating in today's call. We look forward to updating you on our progress when we report year-end results in February and at our Investor Day, which we've now scheduled for March 8 in New York. As always, you can reach out to our Investor Relations team with any follow-up questions. Thanks, everyone.