S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

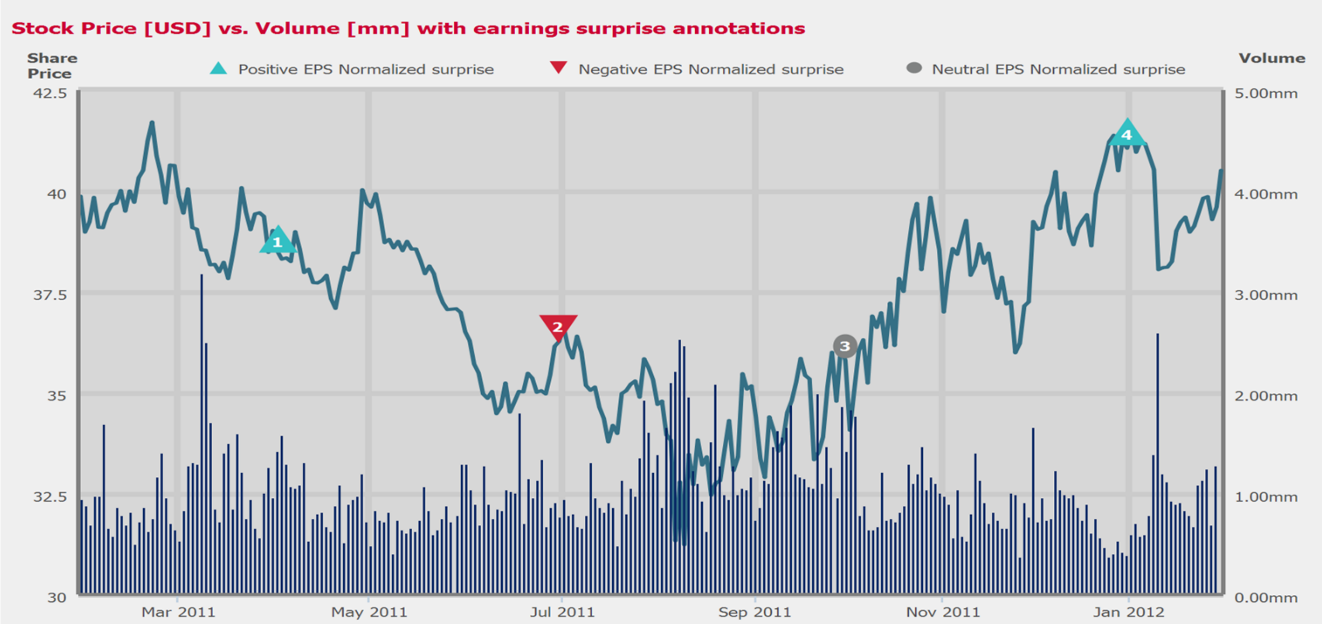
FQ1 2012 Earnings Call Transcripts

Thursday, April 26, 2012 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2012-			-FQ2 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.43	1.76	▲23.08	1.42	5.66	6.04
Revenue (mm)	2080.73	2072.92	▲(0.38 %)	2106.86	8452.02	8469.78

Currency: USD
Consensus as of Apr-26-2012 7:21 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	1.23	1.37	▲11.38 %
FQ2 2011	0.92	0.76	▼(17.39 %)
FQ3 2011	0.79	0.78	●0.00 %
FQ4 2011	1.36	1.65	▲21.32 %

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Call Participants

EXECUTIVES

Christopher John Pagano
Executive VP & Chief Risk Officer

Melissa Kivett
Former Senior Vice President of Business Development and Strategy

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Robert Brian Pollock
Former Chief Executive Officer

ANALYSTS

A. Mark Finkelstein
Evercore ISI Institutional Equities, Research Division

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Edward A. Spehar
BofA Merrill Lynch, Research Division

Jamminder Singh Bhullar
JP Morgan Chase & Co, 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

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

Presentation

Operator

Welcome to the Assurant First Quarter 2012 Financial Results Conference Call. [Operator Instructions] I would now like to turn the call over to Ms. Melissa Kivett, Senior Vice President, Investor Relations. Please go ahead, Ms. Kivett.

Melissa Kivett
Former Senior Vice President of Business Development and Strategy

Thanks, Lauren, and good morning, everyone. We look forward to discussing our first quarter 2012 results review. Joining me for Assurant's conference call are Rob Pollock, our President and Chief Executive Officer; Mike Peninger, our Chief Financial Officer; and Chris Pagano, our Chief Investment Officer and Treasurer.

Yesterday afternoon, we issued a news release announcing our first quarter results. Both the release and corresponding supplemental financial information are available at Assurant.com.

Please note that all prior period financial information presented in the release, supplement and on this call reflects the new accounting guidance for deferred acquisition costs, which the company adopted as of January 1, 2012.

We'll start today's call with brief remarks from Rob and Mike, and Chris participating in the Q&A. 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 the factors that could cause actual results to differ materially from those projected can be found in yesterday's news release as well as our SEC reports, including our 2011 Form 10-K, available at Assurant.com.

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 two, please refer to the news release and the financial supplement posted on our website at Assurant.com.

Now I'll turn the call over to Rob.

Robert Brian Pollock
Former Chief Executive Officer

Thanks, Melissa, and good morning everyone. We are pleased with our results in the first quarter with each business increasing earnings compared to the first quarter of 2011. We also continued to return capital to shareholders while maintaining a strong capital position.

We measure our performance against three important financial metrics. First, we reported an annualized operating return on equity, excluding AOCI of 14.6% during the first quarter.

Second, growth in book value per diluted share, excluding AOCI, was 3.5% during the quarter.

Third, revenue, defined by net earned premiums and fee income, grew by over 1.5% year-over-year, to $1.9 billion. Despite economic challenges, we are producing profitable growth.

In Solutions, the areas identified for growth are service contracts, preneed, international and mobile, which we previously described as wireless. The term mobile recognizes the proliferation of smartphones and tablets in the lives of consumers. Preneed and our domestic mobile and service contract businesses are delivering returns above our ROE targets. In international operations, profitability improved and we continue to see revenue grow in Latin America.

In China, we were pleased to add a prominent client, Jang Su Five Star Limited, a wholly-owned affiliate of Best Buy. We expect this partnership to generate more than 100 million in annual revenue in 3 to 4 years.

Moving to Europe, the continuing financial crisis has triggered greater levels of austerity and a recession. Although our results there have improved, we are taking a hard look at our performance versus expectations to ensure we can achieve our return targets in what we believe will continue to be a difficult environment.

In Specialty Property, we maintain the number of loans tracked, despite the overall shrinking market. We were able to do so by winning new loan portfolios for tracking and by our clients acquiring additional loans. We continue to expect placement rates to return to more normal levels as seriously delinquent loans start to resolve.

Assurant Health continues to make great progress in implementing its strategy. We've been successful in expanding our distribution this year, and are pleased to announce a partnership with American Family Insurance Company .

American Family's broad network of agents will now exclusively sell our individual health policies to their customers. We have a specialty strategy that can be successful no matter how the Supreme Court rules on the Healthcare Reform case. We are focused on meeting the needs of individuals with a range of affordable product offerings. At the same time, we are finding ways to operate more efficiently. Small employers, the primary customers of Assurant Employee Benefits, continue to face challenging economic times. We are further tailoring our business model to focus more sharply on voluntary products, which are increasingly important to our customers and their employees.

We believe our specialized voluntary enrollment and customer service capabilities already give us a competitive advantage in the small employer market. We are investing in tools and technology to expand this advantage.

With that, I'll turn to Mike for more comments on the quarter.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Thanks Rob. I'll discuss a few first quarter highlights and priorities for each of our business segments, starting with Assurant Solutions.

During the first quarter, Solutions' growth in net earned premiums and fees was again led by Latin America and we also saw growth in our domestic service contract business. The profitability of our domestic, mobile, pre-need and extended service contract businesses was above our ROE targets.

The international combined ratio improved by about 230 basis points versus the first quarter of last year, after adjusting for a nonrecurring premium tax benefit in Canada, with all international regions contributing to the improvement.

Solutions' annualized ROE in the first quarter was just over 12% after adjusting for this disclosed item, and we were pleased with the continuation of the improvement we saw last year.

Profitability is, however, still short of the overall 14% to 16% ROE target for the business. A major driver of the shortfall continues to be Europe, which as Rob indicated, is an area of particular focus.

Let me offer a few comments on our results there, beginning with the U.K. where we have taken many actions to improve profitability.

We've adjusted prices, modified contract terms, and discontinued the sale of several products. While results have steadily improved, we still do not expect the U.K. to reach break-even profitability until mid-2013. More broadly in Europe, the poor economy has made it difficult to write new business in our other countries. We've reduced expenses to reflect the lower growth outlook.

The major 2012 priorities for Solutions are to continue the profitable growth in our targeted areas that we saw in the first quarter, while accelerating improvements in European profitability. We expect these efforts, along with rigorous expense control, to lead to an ROE in our target range of 14% to 16% for Solutions in 2014.

Specialty Property's results in the first quarter were strong, aided by growth from new loan portfolios and very mild winter weather with no significant storm activity.

Recently, we were awarded 2.1 million new loans in a competitive bidding process and expect to move them onto our system in the second quarter. Premium production will begin in the third quarter. Our policies will replace existing policies at renewal, so implementation will be completed by the third quarter of 2013. These loans today have an average placement rate of about 1%.

We were pleased by progress in our multi-family housing products, which achieved double-digit growth in net earned premium and fees as our SureDeposit acquisition continues to perform well.

Assurant Health continued its focus on reducing operating expenses and expanding distribution. For the first quarter, expenses were down year-over-year by $17.4 million as we continue to simplify our operations and improve our service to customers and agents. Compared to the same period a year ago, total individual medical sales were up due to growth of health access and supplemental products. Our new network agreement with AETNA Signature Administrators and marketing agreement with American Family should improve sales of all of our individual products.

At Assurant Employee Benefits, net operating income improved primarily due to better life insurance mortality experience. Disability incidents rates improved slightly from the elevated levels we saw in the fourth quarter, but recovery experience remains challenging.

We continue to see significant lengthening of the Social Security decision-making process for disability claim adjudication, which negatively impacts our results.

Our dental experience was slightly better than last year, as the trend for improved loss ratios continued.

Overall, earned premiums declined due to pricing actions on an assumed block of disability insurance and the loss of a disability client. However, the voluntary business again demonstrated growth.

Our strategic focus on distribution through key brokers and our expanded offerings continue to improve sales of voluntary products.

Moving on to corporate matters, we ended the first quarter with $600 million in total holding company capital after returning roughly $115 million to shareholders through repurchases and dividends. We continue to believe that our shares are attractively priced.

Our investment portfolio continues to perform well. We remain focused on preserving the portfolio's overall book yield in the low interest rate environment, and we continue to monitor events in Europe where our exposures are modest and manageable. And with that I’ll turn it back to Rob.

Robert Brian Pollock
Former Chief Executive Officer

Thanks, Mike. I want to spend a few moments to provide you with comments on our lender placed business in light of the regulatory inquiries.

Let me start by outlining our key messages. We utilize consumer-focused processes in our notification of borrowers when there may be a potential lapse in insurance. Of the properties identified with a potential lapse, our process resolves 85% of them. This ultimately has resulted in an overall placement rate of less than 3% of the loans tracked.

Unlike conventional carriers we cannot underwrite or exclude individual properties. Major catastrophes are infrequent, but when they do occur the claims we pay on behalf of homeowners could be significant. Industry models have projected increased frequency in cost of catastrophes, particularly along the Eastern seaboard.

Along with other factors, this is causing conventional carriers to raise rates and limit exposures, which impacts our business.

To update you on developments in New York, we continue to cooperate with the Department of Financial Services, along with other companies, we will participate in their upcoming hearings.

Overall, we continue to effectively run the business and focus on the needs of our customers and clients. Last week we rang the closing bell at the New York Stock Exchange to recognize our 120th anniversary and affirm the enduring values of Assurant: common sense, common decency, uncommon thinking, and uncommon results. Those values are -- also are reflected in our track record of adapting to changing markets. Our priorities are clear; to make Assurant more efficient, to focus on long-term profitable growth, and to generate superior returns for our shareholders.
And with that, we can move into the Q&A portion of our call.

Question and Answer

Operator

[Operator instructions] Our first question comes from Ed Spehar with Bank of America.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Alright, a few questions. First, clarification, the partnership with American Family, is that the Aflac American Family?

Robert Brian Pollock
Former Chief Executive Officer

No, it's American Family in Wisconsin, and in Madison, Wisconsin, Ed.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Okay. And the second question is, with regards to Europe and Solutions, the concern about the profitability there, is it the concern for the extent of a decision about whether or not it makes sense to stay in those markets, all or some of those markets?

Robert Brian Pollock
Former Chief Executive Officer

You know, when we look at Europe, we have had a few problems that we outlined in the UK. We're in the process of correcting those blocks of business, Ed. We also thought there were opportunities to write new business, to help improve our profitability there. And I think we're just looking at things saying, "Look, with all the austerity moves, let's make sure we have a sharp eye on that, and can write the new business that is going to be required to get to our hurdle returns."

Edward A. Spehar
BofA Merrill Lynch, Research Division

So, the goal of 14% to 16% ROE for Solutions in 2014 assumes that we generally are in the markets that we're in today, but we just get to our targeted margins?

Robert Brian Pollock
Former Chief Executive Officer

We see improvement, or are in a position to take either actions that can get us there, Ed.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Okay, and then the final question is on Specialty Property. You had a strong first quarter. You have a significant new couple million loans coming on, understanding the placement rate is lower than the 2.8 you have on the overall, but still a significant new customer -- or, significant new block of loans. The outlook for Specialty Property, flattish revenue and I think slight deterioration in the combine ratio, is that just an overly conservative outlook for this year because of the uncertainty on the regulatory front, or is there something else that we're missing?

Robert Brian Pollock
Former Chief Executive Officer

Yes. Look, if you look at our history on projecting what's going to happen in the housing market, Ed, we haven't been the best at understanding what's going to happen to placement levels. We do feel that the seriously delinquent loan portfolios have built up and, if you just read everything out there, I think that servicers, the government, everybody is looking for ways of dealing with that issue, and we think that will probably start to happen this year, which will reduce the placement ratio some.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

And we look as we've talked previously, Ed - we still believe that the overall long-term trend in the lender place market is going to that steady state that we've talked about in the past. So the question really is just the pace at which that happens, and that's sort of reflected in our outlook, too.

Robert Brian Pollock
Former Chief Executive Officer

Yes. So, again, we -- what we outlined at investor day last year is, this is clearly a specialty business. We think we will return very good returns in the business, but ultimately the placement rates are going to be lower, and our ability to predict that isn't very good, but we certainly believe that, with all the issues around seriously delinquent loans, there's going to be some resolution coming.

Operator

Our next question comes from Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Just to follow up on the placement rates, when they do level off, where do you expect them to level off? Would it be more like 1.5%, 1%, and recognizing that it's - they've held up better than you'd expected. The other question I had was just on your excess capital. You've got 350 million above your 250 million risk buffer. Should we assume that most of that would end up being used for share buybacks, or are you looking at acquisitions? And related to that, is there a possibility that given all of this regulatory noise that something comes up that could cause you to temporarily suspend the buybacks?

Robert Brian Pollock
Former Chief Executive Officer

Okay, so, if we start and go back, Jimmy, first to the steady state, I believe at investor day, we said we think our placement rate, steady state is more in the 1.6% to 1.8% range. Okay? And we'll look at that again, but that would be our best guess today as to what the steady state looks like. Second, very consistent with our capital management, we want to take capital and invest it in the business. If it grows -- we saw a little bit of growth this quarter. I wouldn't say - I mean, we're pleased with that obviously, but I don't think that causes any kind of a material change in capital requirements today unless the growth accelerates. We also are looking for -- can we find acquisitions that help us build out these models. I think, as we've said in the past, they're likely to be smaller acquisitions that could build out the businesses. And ultimately it's the shareholder's money, and we have a pretty good track record of getting money back to the shareholder, and we find things -- we find our shares, as Mike mentioned, attractively priced. Chris, you want to provide some insight into capital movements during the quarter?

Christopher John Pagano
Executive VP & Chief Risk Officer

Sure. Let me walk you through a little bit of the capital flows for the quarter. Just a bit of a reconciliation here. We started the quarter with about 760 million of total capital. We're able to take some dividends in the quarter, about 55 million or so, which took us up to 815 million. We retuned 115 million in the form of dividends and share repurchases. We paid a coupon payment on our bonds, which is a 30 million pre-tax, and then the balance, which is about 70 million, were some capital outflows at the corporate level, keeping in mind that the first quarter is typically a higher cash outflow corporate sector, which then most of which gets billed back to the segments over the course of the year. The big contributor to that 70 million was an estimated tax payment of 27 million, so that leaves us with the 600 million. You know, in terms of the dividends that we took, those dividends were taken out of the Health and the Employee Benefit segments. We were conservative in our dividend plan in Q4 and we had some excess capital at Benefits and Health that we were able to take up in addition to their earnings for the quarter. So going forward we have about -- both the earnings in Solutions and Specialty Property are both now available for dividends, so you're talking about 155-or-so million at the operating companies that we feel comfortable will be able to get over the course of the year. I think the important message about the deployment issue is that nothing has changed. We continue to think the share price is attractive, the repurchases have continued through April. If you look at the press release you'll see that we bought another 650,000 shares for another 25 million, and we're continuing to buy via 10D51, which is our preferred method because it allows us to buy back through blackouts in most cases related to earnings.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And then the regulatory inquiries and noise doesn't concern you in any way, to slow down buybacks?

Robert Brian Pollock
Former Chief Executive Officer

You know, again, there can be situations that could cause us not to buy back - it could be regulatory, it could be acquisition, et cetera, but you can see there's been nothing that's caused us to not buy back during, this period of time, Jimmy.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And just one more. If I look at your Specialty Property results in terms of the catastrophe losses, and you compare that to the normal homeowner's insurance companies, the frequency of CAT losses is a lot higher with the Allstate, State Farm's of the world than it is with you guys. And that's - I'd assume you'd have more quarters with a catastrophe than those guys, or CAT losses given that you've got more of an exposure to CAT-prone areas, or your placement rates are higher there. So do you have any comments on that? On why your - you seem to have fewer quarters where there are any CAT losses?

Robert Brian Pollock
Former Chief Executive Officer

You know, I think that first, you're absolutely right, we have more exposures along the hurricane CAT corridors, I'd say maybe, Jimmy. And I'd say if you look at things like the tornados, et cetera, that's just going to be a function of where our footprint is compared to where the CAT happens to hit. But otherwise, I think it's going to be a function of our concentration in the state, and where the catastrophe happens.

Christopher John Pagano
Executive VP & Chief Risk Officer

The catastrophe is -- obviously, can happen anywhere, and as -- one of the core principles of the business that we've talked about over time, Jimmy, is trying to make sure that we're affiliated with national lenders and servicers because that geographic spread of risk is important. I'd also point out, as Rob said, in some cases we're seeing some of the conventional carriers pulling back from some of the coastal areas and things like that, and can impact our exposure too.

Operator

Our next question comes from Mark Finkelstein with Evercore Partners.

A. Mark Finkelstein
Evercore ISI Institutional Equities, Research Division

I guess I've got a whole bunch of little ones. I guess, firstly, can you just give an update on the California rate situation? And I guess in connection with that, could the rate changes that you ultimately agreed to be retroactively applied?

Robert Brian Pollock
Former Chief Executive Officer

Sure. So we've had a rate filing submitted in California. We're in discussions with the Department of Insurance out there. I think that most of you know we've filed for a slight rate decrease, which we've mentioned we do periodically. They've asked us to look at it harder and re-file, so we're doing that. Mike, can you give a little bit of a background on...

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes. We've previously disclosed our total net-earned premiums last year in California were about $240 million. About half of that premium, California is subject to the rate review discussions that Rob mentioned.

Robert Brian Pollock
Former Chief Executive Officer

In terms of the retroactive, again, I wouldn't think so.

A. Mark Finkelstein
Evercore ISI Institutional Equities, Research Division

Okay. And I guess obviously, California does things very publically, and other states don't really follow that same approach necessarily. Can you maybe just give an update on maybe outside of California, outside New York, what exactly is happening on the rate side? Are you getting similar types of inquiries and pressures given all the headlines that you've seen, or are those outliers?

Robert Brian Pollock
Former Chief Executive Officer

Again we have regular interactions with the State Insurance Departments everywhere, it's part of the process. Remember, in 49 of the 50 states we're an admitted carrier, and so we file rates, we don't -- the exception is the state of Texas. So I would not say that other than the couple you've mentioned, we've seen anything out of the ordinary, and I'm not even sure, with California and New York this is out of the ordinary either.

A. Mark Finkelstein
Evercore ISI Institutional Equities, Research Division

Okay. I guess just moving topics slightly, RMS 11 is having some impact on companies P&L's. Can you give us a flavor for how that has changed your underlying exposures? And what does that mean for reinsurance buying?

Robert Brian Pollock
Former Chief Executive Officer

Sure. I'll let Chris comment on our reinsurance program, which we can give a bit of an update on, but won't be fully placed till June. But, RMS 11 had obviously looked at things and said there was more inland exposure than might have been represented in previous models, and also looked at how flooding impacted some of those models in a bit different way than previous models had. Of course our business is a little different in terms of how it operates, so we've had the dialogues with rating agencies and reinsurers, so that they understand how our model works. Chris, you want to amplify on that a bit?

Christopher John Pagano
Executive VP & Chief Risk Officer

Sure, just a couple things. On the CAT program again, keep in mind we placed 70% of our program already combined with the January placement, in our -- the CAT bond we issued in the first quarter. We are having, and have had ongoing dialogue with our reinsurance partners regarding the June placement. We feel very good about the capacity being available. What we do see with regard to the modeling, is that most reinsurers, and we are taking sort of a multi-model approach with adjustments based upon our views on the changes that took place in RMS 11. As Rob mentioned, we'll update you when we finally complete the placement. But we do feel very good that we'll potentially have some slight increases in rate. What I can tell you though, is that the program has grown and given that our -- we have exposures in CAT-prone that means we'll be buying more reinsurance, and will also probably lead to a change in our retention. So, these are all factors that we're going to work into the program and we'll keep you updated when we finally -- when we complete the placement.

A. Mark Finkelstein
Evercore ISI Institutional Equities, Research Division

Okay. I guess just one final question. Just on the -- in the medical segment, I mean, obviously there's a lot going on with the Supreme Court, and what happens with the individual mandate, what happens with the entire law altogether. I mean -- it sounds like you have strategies to cover each of those, and it sounds like the outcomes -- certain ones are better than others. Could you just kind of walk through, I guess, the scenario that would probably be most troublesome, which would be the individual mandate gets removed, but the inability to underwrite around pre-existing conditions is held in place? And anything else on that topic would be helpful.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I was going to say, Mark, I think certainly you could envision scenarios where the rules are written in a way that, if your risk can't be managed and you can't manage the pricing to be with that, you can get some negative scenarios. However, I think what I like to think about is, healthcare costs are continuing to go up, we don't see any clear evidence that healthcare cost are going to turn anytime soon. So our focus on affordable products, that can fit the needs of a wide range of consumers are going to work, along with the expense control that we alluded to in our prepared remarks, that going to make us more competitive. So really, the key lynchpins of our strategy are going to be valuable to us, we believe, in any scenario that comes out of the Supreme Court decision …

Robert Brian Pollock
Former Chief Executive Officer

Just a couple of other things. If you recall, under state regulation we had some of the same variations you're talking about Mark. Whether it was in small group, et cetera. And we have that ability to analyze and decide, where do we want to play, how are the rules going to work. This will also create, perhaps -- if something happens, different interaction with the states. But I think what you should take comfort in is, we have the ability to move quickly, we're thinking about the issues. Of course until you know what the issues are and how they interrelate it's difficult to try and isolate a single issue and say what's going on. But saying that, the mandate itself is a fairly weak mandate, okay, in our minds to begin with because it still probably allows a lot of people to buy insurance when they need it.

Operator

Our next question comes from Chris Giovanni with Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Question for you on sort of the RFP Process with the Fannie Loans. Can you comment sort of around premiums charged for those RFPs, maybe relative to some of your existing book of business with them.

Robert Brian Pollock
Former Chief Executive Officer

We don't go into specifics, but let me tell you what we can say, Chris, is that Fannie, and I think this probably relates to the growing seriously delinquent loans. They're focused on, how can they reduce insurance costs related to that business. And we think we have solutions, we've responded to the RFP. We think we have ways to deal with that. But we also know we have to work it in conjunction with our servicing partners, and we're going to try and do that. Mike, I know that you probably have some of the numbers that can shape what that looks like?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I just remind you Chris, that we've talked about the loans that we can track, the investor codes on our systems, which is most of them, about a third, we think we have about 8 million Fannie loans that we're tracking.

Robert Brian Pollock
Former Chief Executive Officer

Remember when they move to REO status, Chris, then Fannie self-insures that business.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then, do you know the timetable in terms of when you expect to get -- hear back from them?

Robert Brian Pollock
Former Chief Executive Officer

Again, I think that we've had some dialogues. I think that you've got probably the servicers weighing in on some of this as well, because this has an impact on -- they want to make sure they're fulfilling servicing requirements that are discussions they have with Fannie themselves. But, in all of this, remember we got about a 1% placement rate on those loans that are out with Fannie, and we've got some solutions that require that different parties work together. I think they were -- the original RFP, they were looking for something this summer. In our best guess, going to take a little longer than that, but we don't know.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. In terms of Capital Management, historically you haven't been active in the market during hurricane season, but last year you diverted from that a bit. Chris just gave us some pretty good collar around thinking about the reinsurance program coming up. So as you think about that, how does that impact your decision around share repurchases, and would you expect to be active during this wind season?

Christopher John Pagano
Executive VP & Chief Risk Officer

Well Chris, I think our goal is to be in the market consistently, and in the past we've dialed back, because taking a conservative approach as it relates to when we move into wind season. I think we'll calibrate every quarter, that's been the policy over the last nine quarters. I think one of the things that we calibrate around is the CAT Program, which we'll have a better feel for in the next month or so. But I think the goal would be, even adjusting for what we like to think of as a "seasonal buffer", so additional capital held back as we move into wind season, I think our goal would be to be in the market consistently throughout the entire year.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. So should we take the consistency meaning roughly the level of share repurchases you've had in 1Q? Or just meaning you'll consistently have some activity in a quarter?

Christopher John Pagano
Executive VP & Chief Risk Officer

I think, again, consistent activity throughout the entire year. What I would discourage you from doing is attempting to extrapolate quarterly activity, but really, look at the body of work, if you will. And when you start to think about the purchase -- the last two years of purchases, the last nine quarters and including -- if you include April as well, 32 million shares, and almost 1.2 billion dollars. So the way I think about it is, over the course of time, we will, after applying our capital management priorities, we will return capital to shareholders. And with the price as attractive as it is to us now on the percentage of book, we feel that capital deployment through share repurchases is a prudent approach.

Operator

Our next question comes from Steven Schwartz with Raymond James and Associates.

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

I got a few, I think mostly quickies. Just on the Specialty Property loss ratio for the quarter, very good, obviously no CAT losses. Are we also looking at a situation where call it large weather events that generally happen, but might not be considered CATs didn't happen either because of the mild weather?

Robert Brian Pollock
Former Chief Executive Officer

Yes, I think we had a real mild winter and we've had some of those in the past and then we've had some more severe ones and I think that's what causes the variation, Steven.

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

Okay, and then just looking at the guidance for the loss ratio and the expense ratio moving higher, obviously, versus last year x CATs. Is this a function of captives, that market possibly driving the margin down a little bit?

Robert Brian Pollock
Former Chief Executive Officer

I think it's really a function of what we saw the product mix changing a little bit, which would be, gee, we thought placement rates might start to go down a little bit, we'd have a little bit more of our other business, the multi-family housing, which includes the renters and sure deposit in it. But it was really predicated on there being lender placed placement rates coming down a little bit, Steven.

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

Okay, great. And then on American Family. Are they currently writing business for somebody else in the health market?

Robert Brian Pollock
Former Chief Executive Officer

I believe that they have had a relationship, but I don't know who it is, Steven.

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

Okay, so you don't know how much they were writing to begin with?

Robert Brian Pollock
Former Chief Executive Officer

I don't, but they're in I think 14 or 15 states and they have written some small group insurance business with us for a number of years.

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

Okay, and then just one last one. I'm interested in the comment with regards to the Social Security adjudication. I'm very interested in that. A while ago I guess the New York Times had an article about some guy in Kentucky who never saw a disability case that he didn't like. I'm sure you remember that. Is this a response to that? Is this a potential response to budget pressure? What do you think is driving this?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I think there could be lots of reasons, I think what we can observe Steven is just that it's taking Social Security a longer time to come to decisions. And whether that's because they're taking a different approach or just sheer volume of applications or whatever, the fact is the way reserves in disability, at least our disability reserves, is we sort of assume the longer time it takes the lower the probability that a claimant is going to get Social Security. And if they get Social Security of course that offsets our liability. So the fact that these things are taking longer, what is hard to tell, because you just need so much data to be credible in disability, is whether we're going to change the ultimate answer. In other words is it just a timing difference or is sort of the rate at which Social Security approves going to change. And it's going to take more time to see that, but in the meantime that longer timeframe actually feeds into our reserves a little bit. So that's the impact that we mentioned.

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

That's because you're getting a couple of months extra where you're not getting the offset?

Robert Brian Pollock
Former Chief Executive Officer

I would say it's just a little different than that. Mike pointed out that our reserves assume we're not going to get the offset. We may -- if we get it, then that'll come back as a positive, but right now we're assuming we're not going to get it on some of those claims.

Operator

Our next question comes from Jeff Schuman with KBW.

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

One follow up. I didn't quite follow. On the California rate review, why is only half the premium subject to the weight review?

Robert Brian Pollock
Former Chief Executive Officer

We write to a variety of different kinds of business Jeff, and so that’s just the portion of it -- we have different legal entities, and in our California businesses, just half of it is sort of what's associated with the products California is looking at. So, I mean, think about our renters business, that’s not something that's under review, or our manufactured housing could or couldn't be, so it's the business that we filed for a rate change on.

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

Okay, that's helpful. And then, back on the Fannie RFP can you give us a little more -- a better sense of kind of what that whole process looks like? Is it mostly a discussion between Fannie and the traditional sources of capacity and loan tracking, or is this a much broader, outside of the box process that could involve other sources of capacity and other types of solutions?

Robert Brian Pollock
Former Chief Executive Officer

Well again, I can't comment on the latter part, because I just don’t know, because they put out an RFP and I guess my nephew could have bid on it Jeff and I don't know what he would have said. But if you think about the processes that'll be required to work on this, we think it will require an ability to track and an integration with the mortgage servicers who also are performing a number of activities around things. So we responded, it's a comprehensive, detailed RFP as you would expect, that goes into a lot of things and we think we understand what's driven this and we think a lot of it does relate to those seriously delinquent loans. And if you just think about the fact that were these in an REO status, Fannie would be self-insuring them and these may be some loans that, for whatever reason, haven't moved to REO yet, you start to understand their rationale behind looking at all of this.

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

Okay, that's helpful, thanks. And then over on Health, I think the GAAP loss ratio last year was 74% for the year. I think it was about 74% this quarter. Can you update us on how we should kind of conceptually map between the 80% requirement and then GAAP. I think at one point you said -- people were sort of thinking mid to high 70s. Should we think a little lower is compatible with that now? How should we think about that?

Robert Brian Pollock
Former Chief Executive Officer

I think that's kind of a reasonable range still Jeff. When you think about credibility adjustments, you think about some of our business being subject to the MLR and some not, so I think you would get into that kind of middle 70s range, to your point. There's also transition relief, there's changes in credibility, there's just lots of factors that sort of go into that calculation of the MLR.

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

Okay, so some of the 74-ish type numbers we've seen we should view as being on kind of the favorable end of what we should expect? Is that fair?

Robert Brian Pollock
Former Chief Executive Officer

I think it's likely to move up a little from there over time, yes.

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

Okay. And then, it seems like you've made really good progress on taking the expenses down, the other part of the shift is really trying to get the volumes up. I mean, is it fair that the expense improvements have been sufficient, that maybe it takes a little bit of pressure on your requirements to scale up aggressively? Or do you still need to scale up quite aggressively do you think? And if that's the case, do you maybe need to shift back and spend a little more money on marketing.

Robert Brian Pollock
Former Chief Executive Officer

Yes, good questions. I guess where I'd start is if you look at our emphasis on our health access products, we are pleased with the fact that we're writing quite a bit of that business. But remember, it's at a lower premium rate and is replacing higher premium major medical coverages. So we want to write more of that health access business. We also feel that the Aetna relationship, which we're really expecting is going to kick in, in the second half of the year, will help us in that individual major medical side. And the point is, we've spent a lot of time during the first quarter on implementation, just putting that in place, which was no small task. So we think that we're well positioned with that and the American Family deal to see our business -- new business pick up in the second half of the year. And again, in all of this we're looking to focus on meeting that affordability need of our consumers.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

But I think we have talked and I think you're picking up -- you're thinking about it like we are Jeff, is that we need both. We've done a lot of great work, as you've said on expenses, we've got some more to do that and most of that continues to be sort of in the infrastructure, and then we've got a basis that we can leverage some of our distribution things. And we need to do both of those things. We need to continue to work on the expense side and with Aetna and American Family and our other distribution partners to ramp up the sales too.

Operator

And our next question comes from Mark Hughes with SunTrust.

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

On the healthcare reform, if the entire thing were to get tossed, how much change has there been at state-level regulation, which is to say, you know, how much could you go back to your former way of operating the business if the Supreme Court throws out the whole thing, or are there other changes, regulations at the state level, perhaps, that are - would still impact your business going forward?

Robert Brian Pollock
Former Chief Executive Officer

Well, again, the states have involvement in the process. I think they would adapt their thinking about things a little bit and we have good relationships with the insurance departments in the states we operate. So again, we're sitting down and trying to analyse things, but it's -- there's so many variables involved in all of this, Mark, it's very difficult to be able to figure out exactly which pieces are going to be impacted. You brought that they just say, throw out the whole thing. I don't think we put a high likelihood on that. It could, but I don't think we put a high likelihood on that. But regardless, we have a strategy we think will work either way and can be quickly adapted because the cornerstone of all of it is affordability and the products we've designed that meet what consumers want.

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

The -- on disability, how much longer is that claims process, if you can say? And then, how important is that to your recoveries, or what proportion of your recoveries come from those Social Security approvals?

Robert Brian Pollock
Former Chief Executive Officer

Yes. I can't give you a specific number on, like number of months. All I can say, Mark, is we're just seeing it take longer and that just sort of complicates the challenge of this analyzing the business and things like that. You know, the fundamental issue is, we need to get people, whether they get Social Security or not, we need to get them back to work. And then the challenging economic environment, that's just proving harder than it has been, sort of by our historic standards.

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

Is that a smaller piece of your recoveries? Is it 20%? Is it bigger?

Robert Brian Pollock
Former Chief Executive Officer

Yes, so it's hard without having all those specifics. So let's just take a very simple example, Mark. Let's assume that in the first year, 70% of our claims we assume are going to get Social Security, and after the first year and between years 1 and 2, a quarter of them are going to get a Social Security recovery. I'm totally making these numbers up. And after two years, nobody is going to get one. Okay? Now, if you think about the reserves that Mike mentioned, in that first year we set up a gross reserve, but assumed that we're going to get 70% of that reserve paid for by the reimbursement, not perfect, but if we were paying at the Social Security level. And you start looking at what happens as the payments are slowed, you can see that we're going to -- we're increasing our reserves as a result. Now, if it turns out we actually get the money back, then we're going to have a positive flow in our financial statements. But that's not what's going on right now.

Operator

Our next question comes from John Nadel with Sterne Agee.

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

You know, Rob, I'm curious about the pace of buybacks in the first quarter. I think historically this tends to be one of your bigger buyback quarters, historically. You know, is there anything that we should read into the pace of 1Q buybacks? And then also relatedly, could you discuss your expectations for a new buyback authorization, since it seems like the remaining amount on your current authorization is getting somewhat low?

Robert Brian Pollock
Former Chief Executive Officer

Sure. So first, I wouldn't read anything into the quarterly buyback. I think Chris covered that in some detail. I like the term you used, you've got to look at the body of our work as opposed to looking at a particular point in time. And I know you guys have to do that, but the answer is, don't read anything into it. Our capital deployment strategy is consistent with what it's always been and I think both Mike and Chris mentioned, we think our shares are attractively priced. I think you'll see that reflected moving forward in whatever we do with our buybacks. You know, I forgot the second part of your question.

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

Authorization.

Robert Brian Pollock
Former Chief Executive Officer

You know, that's a board action, John, so you know, the - it's something we talk about regularly with the Board. We also talk to them annually about our dividend and Chris, do you want to…

Christopher John Pagano
Executive VP & Chief Risk Officer

Yes, John, just again, as Rob mentioned, I don't think it makes sense to speculate on anything that requires Board action. But what I can tell you is we have regular dialog with the Board on both the share repurchase and our dividend policy, and we have support from the Board and alignment on the approach that we've been taking. So again…

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

Okay. Yeah, that's fair enough. I understand you don't want to get out in front of the Board. Rob, is anything changed on the M&A outlook? I mean, obviously a lot of financial companies out there are under some stress, particularly overseas, a lot of the kinds of things that I think you guys would have interest in are likely smaller pieces of bigger companies that may or may not be viewed as core. So I'm just wondering if anything has changed on the M&A outlook?

Robert Brian Pollock
Former Chief Executive Officer

We're continuing to look at things. We're looking at lots of things, John. Remember, as well, that things have to hit our hurdle rates to buy. We've got to be able to buy in excess of our cost capital. We said we're likely to buy things that are smaller. I think you're referring to things that could be tuck-in acquisitions, we'd love to do tuck-in acquisitions. I would say right now, the #1 thing available in the market is something we're not too interested in, which is variable product stuff. And there's a fair amount of it, and we're not going to be interested in that. But if you look at our record, the sure deposit acquisition, they're likely to be smaller things that are nichey and fit in with what we want to do. And if we can find the tuck-in at - that is something [indiscernible] excess of our cost capital, absolutely, we'll consider it.

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

I'm very happy to hear no interest in the variable product. Just -- and then two more quick ones. What's the timing of this New York public hearing on the lender place business?

Robert Brian Pollock
Former Chief Executive Officer

Yes. I think it's in mid-May.

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

Okay. And then what's the -- what's your current assessment, Rob, of the -- I guess what you're calling the mobile business now? What we used to think of as wireless. What's your current status of how that business is performing; clients up, -- new client opportunities, competitive situations, that sort of thing?

Robert Brian Pollock
Former Chief Executive Officer

Yes, we've got a lot of activity in the area. Again, this is an area we like a lot because we've mentioned that there's new business and new profit pools emerging all the time. This is a business that is already exceeding our ROE targets. We've mentioned a few of the, -- the Sprint deal on - that we did with them on tablets, a small deal but a huge learning opportunity for us in terms of where things might go. We've got Telephonica, which we've been running hard at the implementation for a number of quarters here, and feel good about that. This is now going to give us the ability to test some new ideas, in particular, the prepaid market. So we feel good about that market and we think it's going to be continue to grow moving forward, and it's a big part of where we expect to see growth.

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

And then the last quick one. So I get it, that a lot can change on the healthcare reform, particularly with the Supreme Court reviewing it. But if we just assume that the healthcare reform as it stands today remains in place, what's your best guess currently on the timing for getting to that 4% after-tax margin target?

Robert Brian Pollock
Former Chief Executive Officer

I think it's -- the way we've characterized it in the past, is we have to have all the healthcare reform issues, which are coming in over the years, John, we have to deal with all those. I would suspect that 2014 timeframe, things are fully implemented. I'd look toward the later part of the year there for that to happen. Again, the big key is that we have success with our affordable products in the health access portfolio and the supplemental products there, which again, are performing well, but we've got to write more of that as well.

Operator

And we'll take our final question from Steven Schwartz with Raymond James and Associates.

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

Just a few more, if I may. Rob, can you maybe explain something I'm not getting. And I saw the AETNA when it happened. You get to use their facilities, their network. How -- I mean, that's nice, that's great, that you have this, but how does that feed customers to you?

Robert Brian Pollock
Former Chief Executive Officer

Well, only -- we can then work their tier 1 discounts into the pricing of our major medical products. That has been an inhibitor for us in this business for a long time, because it's put us at a cost of goods sold disadvantage because we've got to charge more.

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

Okay, got it. And then just one more follow-up on the Social Security thing. The way you described it to Mark Hughes, I think it was, was great. Is there - are you saying that - okay, so let's say we're in year 2 here and you get an approval that, that is going to be retroactive back to the start of the claim? That's what I didn't understand when I asked about the timing difference.

Robert Brian Pollock
Former Chief Executive Officer

Yes. That's exactly right. You're thinking about it the right way, Steven.

Robert Brian Pollock
Former Chief Executive Officer

Thanks for joining us today. We look forward to updating you on our progress on our next quarterly call.

Operator
This concludes Assurant's first quarter 2012 call. Please note that a replay will be available as of 11:00 a.m. You may now disconnect.