S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

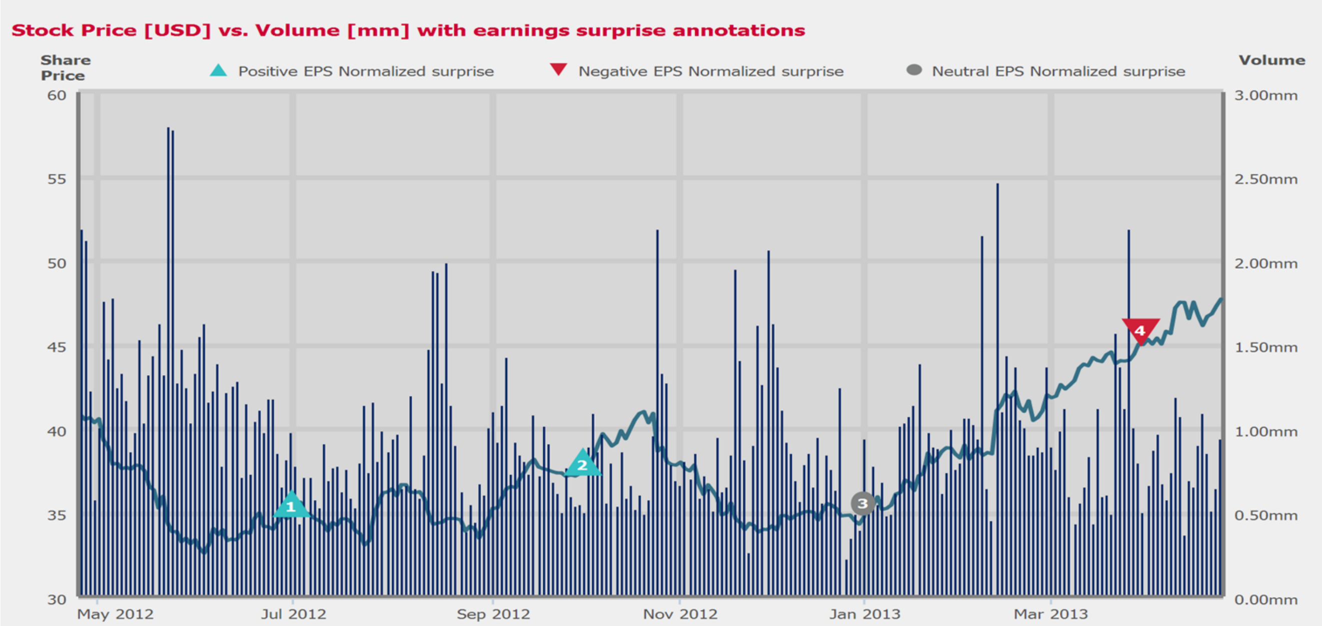
FQ2 2013 Earnings Call Transcripts

Thursday, July 25, 2013 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.43	1.53	6.99	1.21	5.59	5.80
Revenue (mm)	2120.31	2237.77	5.54	2128.60	8537.43	8492.61

Currency: USD
Consensus as of Jul-25-2013 8:30 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	1.38	1.81	31.16 %
FQ3 2012	1.43	1.55	8.39 %
FQ4 2012	(0.28)	0.07	NM
FQ1 2013	1.54	1.35	(12.34 %)

Call Participants

EXECUTIVES

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Francesca Luthi
Chief Communication & Marketing Officer and Executive Vice President

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Robert B. Pollock
Former Chief Executive Officer and Executive Director

ANALYSTS

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Evercore ISI, Research Division

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

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

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

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Presentation

Operator

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

Francesca Luthi
Chief Communication & Marketing Officer and Executive Vice President

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

Yesterday afternoon, we issued a news release announcing our second quarter 2013 results. Both the news release and corresponding financial supplement are available at assurant.com. We'll start today's call with brief remarks from Rob and Mike, with Chris participating on 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 factors that could cause actual results to differ materially from those projected are provided in yesterday's news release, as well as in our SEC reports, including our 2012 Form 10-K and our first quarter 2013 10-Q.

Today's call also will 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 financial supplement posted on assurant.com.

Now I'll turn the call over to Rob.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Thanks, Francesca, and good morning, everyone. Second quarter results were in line with our expectations. While earnings were lower than last year, we are pleased with our progress in expanding each of the areas we are targeting for profitable growth. Our unique capabilities are helping us reach a broad group of consumers in the mobile, renters, health and voluntary benefits insurance markets. At the same time, our core businesses continue to generate free cash flow, allowing us to return capital to shareholders.

I'll start by summarizing our results against the 3 important financial metrics we use to track our progress. Annualized operating return on equity excluding AOCI was 10.5% year-to-date. Book value per diluted share excluding AOCI increased by 5.2% since year end, and revenue, defined as net earned premiums and fees, increased by 5.8% compared to the first half of 2012, driven by strong growth at Specialty Property and Solutions. We're also encouraged by the sequential increase in premiums at health and employee benefits. In the quarter, we've repurchased $174 million of our stock, and we increased our quarterly dividend by 19%. The strength of our balance sheet provides great flexibility. We continue to look for opportunities to invest in our businesses to support our long-term strategic objectives. At the same time, returning capital to shareholders remains a key priority. We plan to repurchase shares during the current quarter subject to a number of factors, including the level of storm activity.

Now I'll offer updates on each of our segments. Assurant Solutions continues to drive toward its goal of a 14% ROE in 2014. We're focused on tightly managing expenses and growing our business profitably in targeted areas through new and existing clients. Specifically, we're scaling our mobile business, expanding our Latin American operations and improving results in our U.K. business. We are building momentum in our mobile business. During the quarter, we expanded our footprint. Earlier this week, we announced that

Solutions was selected as T-Mobile's partner for their new JUMP! program, including premium handset protection. Solutions will serve as the risk manager and customer service administrator of the program, the first of its kind to allow consumers to enjoy frequent equipment upgrades without penalty. The new program will be available to 26 million T-Mobile-branded customers in the U.S. While Solutions will be the direct writer of the business, T-Mobile is likely to retain the underwriting risk. We anticipate that the JUMP! program's contribution to net operating income this year will be modest due to the upfront investments necessary to service this business. It will grow in 2014, particularly in the second half of the year as the number of subscribers enrolled in the program ramps up.

During the quarter, we began offering mobile protection to eligible prepaid customers of Boost Mobile and Virgin Mobile, brands both owned by Sprint. As part of the program, we converted existing mobile protection customers to our platform at the end of June. We expect these wins to more than offset the mobile business we lost last year over the next few quarters. The ramp-up and ultimate size of these new programs will depend on the appeal of our products in the marketplace. In addition, we're pleased to report the renewal of our partnership with U.S. Cellular for an additional 4 years. Their constant focus on product innovation and the consumer experience has made U.S. Cellular a valued client and a great partner to Assurant Solutions for many years. We expect to generate attractive returns in mobile as we continue to develop value-added solutions for our partners and their customers in this fast-changing market.

Serving the growing middle class in Latin America remains a priority for Assurant, and we are finding many ways to do so. As an example, we recently partnered with Nissan to provide service contracts to their customers in Mexico. We believe we're well positioned to support the growing auto warranty market in Latin America. In Europe, we completed additional restructuring actions last month to better ensure U.K. profitability in the third quarter. We believe that our streamlined operations and focus on extended service contracts, including mobile, will allow us to improve returns in the region longer term.

At Assurant Specialty Property, we posted strong revenue growth across all of our key product offerings. In our multifamily housing business, we now serve nearly 900,000 policyholders nationwide. This represents a 28% increase since the second quarter of last year. As more consumers choose renting over home ownership, our relationships with leading property managers and other distribution partners will help us capitalize on this growing market.

In our lender-placed insurance business, our alignment with market leaders continues to pay off. We now attract nearly 34 million loans nationwide and expect to add another 1 million loans in the third quarter. In order to support this volume, we are leasing a new facility in Dayton, Ohio. This will bring more jobs to the area and build additional capacity so we can continue to provide high-quality service and administrative support for our clients and the homeowners we ensure.

During the quarter, we continued our proactive outreach with state regulators as well as the FHFA. We completed the implementation of our new lender-placed product in 28 states. In the third quarter, we will introduce the product in 10 more approved states. Our filings in New York and Florida are moving through the rate review process. We responded to the additional questions the departments have raised and will continue our dialogue until the process is completed. At the federal level, the FHFA recently convened a roundtable discussion with key constituents. The purpose was to discuss proposed changes to lender-placed insurance for servicers of GSE loans. We participated in the session and will continue to assist the FHFA and our clients during their review. We will update you further as we complete the rollout of our new product in other key states and the FHFA finalizes any changes on lender-placed insurance practices for GSE loans.

At Assurant Health, total sales grew 35% as we produced double-digit increases across all product lines. We're pleased by continued sales momentum, evidence that consumers recognize the value and affordability of our products. In the quarter, we continued to work through the next phases of health care reform. We updated our major medical products to cover the essential benefits required by the Affordable Care Act. We decided to defer our participation on public health exchanges until 2015. Instead, we're focusing resources to help our customers and distribution partners understand how the Affordable Care

Act impacts healthcare during this period of transition. As medical costs continues to increase, we believe consumers will find our affordable choice plans even more attractive.

Assurant Employee Benefits posted another strong sales quarter. Year-to-date sales are up 18%. Earnings reflected pressure on our disability products, but dental experience was again excellent. We recently completed a redesign of our dental offerings to provide more tailored solutions for small and midsized employers. These enhancements, along with our broad dental network, should continue to increase the appeal of our products to employers and their employees. Overall, throughout Assurant, we remain focused on driving profitable growth across all of our businesses, and we're pleased with our progress so far in 2013.

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

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Thanks, Rob. I'll start with Solutions. Net operating income declined $2.5 million after adjusting for a $3.8 million nonrecurring benefit in the second quarter of 2012 and a $2.7 million charge for a reduction in force in Europe this quarter. preneed earnings declined primarily due to lower investment yields. Expenses are up in preneed, reflecting higher amortization of selling expenses due to the growth that we've seen over the last several quarters. In addition, results at Solutions reflect the previously disclosed loss of a mobile client.

Net earned premiums and fees increased by 7% versus the second quarter of 2012. Domestic premium growth again reflected promotional activity at the large client we mentioned last quarter, and we also saw increases in our vehicle service contract business. Expansion in Brazil and Mexico drove higher premiums abroad. The international combined ratio declined 250 basis points after adjusting for the disclosed items. Growth in Latin America and previous expense management actions contributed to the improvement.

For the full year, our international operations remain on track to deliver a 100 to 200 basis point reduction in the combined ratio, excluding disclosed items. The domestic combined ratio remained near the long-term target of 98%. For the second half of 2013, we continue to expect modest top and bottom line growth as we pushed toward our goal of a 14% ROE next year.

Specialty Property posted strong results in the quarter, driven primarily by revenue growth from lender-placed loan portfolios added during the past year and the continued expansion of our multifamily housing business. As expected, the additional growth in lender-placed business drove higher general expenses in the quarter.

Our placement rate in the quarter was 2.8%, representing a modest decrease from the first quarter of this year and the second quarter of 2012. We expect placement rates to fluctuate in the near term, reflecting the composition of our recently added loan portfolios, but longer term, placement rates should decline as the mortgage market rebounds. In the second quarter, we reported a sequential decrease in premiums ceded to clients because a client quota share arrangement was discontinued. This is detailed in the ceded premium shown in our financial supplement. Starting April 1, we began retaining premiums and underwriting risks for this previously reinsured client. Premiums written prior to April 1, along with the associated claims, will continue to be ceded proportionately as they run off during the next year.

During the second quarter, we completed our 2013 Catastrophe Reinsurance Program at attractive rates. We expanded coverage by nearly 20% to support growth in our lender-placed business. Our program also supports a small but growing footprint in the Caribbean and Latin America, where Specialty Property and Solutions partnered to develop a traditional dwelling insurance product for a global banking client. Due to the continued growth of lender-placed loan portfolios, the reduction in ceded premiums and the expansion of our multifamily housing business, we expect Specialty Property's revenues for the full year to grow from 2012 levels. Our expense ratio will also increase as we expand capacity to support the growth in the business.

Assurant Health reported a small profit in the quarter, consistent with our outlook for the full year but down considerably from 2012. The decrease is due to a higher effective tax rate and the absence of $14 million in aftertax real estate joint venture income that was included in our second quarter 2012 results. Our loss ratio increased to 75.2%. This reflects less favorable experience compared to the prior year and pricing changes in response to the minimum loss ratio targets in our major medical business. We expect the ratio to remain around this level in future quarters. We are pleased that net earned premiums grew 4% from the first quarter of this year and that insured lives continues to increase. Growth in our book of business remains an important long-term metric for health. We're encouraged by our progress and remain cautiously optimistic as the health care market enters a period of unprecedented change in the second half of 2013. At Employee Benefits, net earned premiums and fees were flat year-over-year but up slightly from the first quarter, evidence that our enrollment and administrative services are gaining traction with voluntary customers.

Earnings declined on a year-over-year basis, primarily due to less favorable disability results and the previously disclosed reduction in the discount rate for new claim reserves. Disability experienced primarily reflected lower recoveries in the quarter. We've maintained strict pricing discipline in our disability business during the past year and will take additional action as needed. Results across the other product areas were solid. For the full year, we expect continued growth in our voluntary business and overall premiums at Benefits to remain in line with 2012 levels.

Turning to corporate matters. We took $185 million of dividends from the operating companies in the second quarter. We continue to anticipate that business segment dividends for the full year will equal operating earnings. As always, dividends will vary depending on the capital needs of the businesses and rating agency requirements. As Rob noted, we repurchased $174 million of stock in the second -- in the quarter. We also retired approximately $24 million of our 2014 senior notes through open-market transactions. At the end of the second quarter, total debt outstanding amounted to approximately $1.6 billion, including $476 million that will mature in February of 2014. As a reminder, the March issuance increased our aftertax interest expense by approximately $4 million in the quarter.

Our corporate operating loss was $22 million, reflecting investments in areas targeted for growth and additional benefit-related costs. For the full year, we still expect our Corporate segment operating loss to be between $65 million and $70 million but likely at the high end of that range. Our investment portfolio continues to perform well. Yields increased in the quarter, which reduced our unrealized gain position, but they still remain very low compared to historic levels. Our conservative investment philosophy and disciplined asset liability management minimized our portfolio turnover and helped moderate the pace of decline in our portfolio yield.
We're pleased with our progress in 2013 and look forward to improvement over the second half of the year. And with that, we'll ask the operator to open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is coming from Jeff Schuman with KBW.

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

I was wondering if you could help us a little bit on the change in the captive reinsurance. Is the amount of client-ceded premium likely to remain approximately at the level that we saw in the second quarter, or will that actually come down from here?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Mike, you want to provide some of the details there?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, well, we cede -- as you know, Jeff, some of our clients we have reinsurance arrangements with. And this client this quarter terminated their arrangement. So their ceded premium to them will obviously decline over the last several quarters. Whether the aggregate total goes down depends on volume in the other clients, and there's also some ceded reinsurance outside of lender-placed, too, that go through that line.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I think it's also to just point out that we will have the premiums. We'll also have the risks associated with that business, Jeff, going forward. So the good news, more premiums; second, we'll have the associated risk associated with the business.

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

Okay, so essentially you stopped ceding new premiums to that particular captive, but there are still -- there's still premiums that you ceded earlier that's -- okay...

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Unearned premiums at that $630 million will run through under the -- they'll run through the income statement on the same reinsured basis over the next year, basically.

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

Okay, and then on the placement rate, I'm wondering if you can somehow give us a little better feel for the dynamics there, where it appears that maybe the placement rate is actually coming down on some of the legacy business, but then that's kind of obscured by what's happening in the new business. Is there any way for us to kind of see through those dynamics a little better?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. I'll let Mike talked about the details in a second, but I think we want to start with just thinking about there's a lot of factors influencing things here. It starts with the general economic situation in terms of people's ability to make payments on homes. So it's impacted by unemployment rates. It's also impacted by government policy around support of the housing market and in particular, trying to prevent foreclosures. That goes in a little bit then to thinking of about we see differences in that placement rate in different areas. And Mike, maybe you want to expand a little bit on that.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes. I think to your point, Jeff, if you look at -- the placement rate on our legacy business, I'd say, is slightly down, but you get influx of new portfolios, all of which have sort of unique characteristics. And so you get variation in your overall aggregate levels. So you've got this slowly declining -- or slow thus far declining legacy rate, then, when you get the noise essentially introduced by the new portfolios.

Operator

And we'll move next to Chris Giovanni with Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

I guess, first question, you mentioned you're going to be rolling out in 10 more states in 3Q, so you'll will be up to 38. Wondering if you could give an update on kind of percentage of premium that those represent, particularly as you now move through some of states that are a bit larger.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, I think they're the medium-sized states, Jeff. I think the important issue is approval in Florida and New York contribute a big portion of our block, and we need to receive kind of approval there to proceed. So they're not in the totals. Obviously, if we can get through the process there, which we anticipate happening, we'll be in a position to roll there as well. And Florida, as we've mentioned, represents about 1/3 of our business.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then one just quick follow up to Jeff's question regarding the ceded business. Was the book that was on-boarded to you, was that contemplated as you went through your cat program this year?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, I think that we've been looking at exposure growth in general, and you see that we bought some more reinsurance at the top end. And I'll let, perhaps, Chris just comment on the program a little bit.

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Yes. Chris, just one point of clarification. In the scenarios where premium is ceded, the client participates in our cat program alongside us. So paying the premiums, the claims, et cetera, et cetera. So when we put a program together, it's contemplating the aggregate book. Now with respect to the additional $300 million of coverage, that is a function of additional loans that we've -- growth in the program, growth in the risk and, in particular, obviously, growth in the program in the cat-prone areas.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

And we always look at that top end and we want to be sure we have enough coverage there, Chris, because that's -- at the lower end, that's sort of an earnings volatility issue. At the top end, we want that protection. So we try to be relatively conservative in setting that top-end limit.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Understood. And then in health, I guess, the sales there continue to be pretty robust. You had the sequential increase in premiums, which I think was the largest since 2003 or so. And recognizing a lot of that has been driven by the shrinkage in insured lives, health care reform and all, but do you feel you're starting to get a kind of positive inflection point here where scale can start to build a bit, potentially driving down that tax rate over time?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

We're certainly hoping so. Again, I think that all of our efforts at -- when the Affordable Care Act was enacted and the strategy we embarked upon around affordability and choice, we really think is paying off. Obviously affordability will continue to be a big issue going forward for us, Chris. And the fourth quarter of this year is obviously going to be kind of a brave new world with the introduction of the exchanges. We'll see what happens there. But we think our fundamental strategy of driving at that affordability is going to prove out. So we're quite optimistic about prospects in the health business.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then one last quick one just for Chris, I guess, regarding buybacks. Recognizing you want, I guess, to consistently be in the market, how are you thinking about kind of the pace here as we enter hurricane season? I know in the past, you've been somewhat reluctant for a few years back. Rob, I think you made the point that the stock was just way too cheap and you'd be pretty active during the hurricane season. So I just wanted to get some updated thoughts there.

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Well, the capital deployment decisions and the share repurchase activity is always a forward-looking exercise. So -- and I think from where we stand right now, with $640 million of deployable capital and a stock that we still believe is undervalued and attractively priced, we plan to be in the market through cat season. We'll of course be more conservative because that's just how we are, but do want to be in the market consistently and expect to -- there's a program in place right now, which has been in place since the 10b5-1 programs, since early April. Once we exit blackout period, we'll recalibrate and make some decisions around repurchase activity in the next several months.

Operator

And we'll move next to Mark Finkelstein with Evercore.

A. Mark Finkelstein
Evercore ISI, Research Division

A few questions. On Solutions, you have reasonably good transparency, at least into the revenue side. And I'm just curious, in terms of the achieving the 14% ROE into '14, is there anything else you need to do on either the expense side or on the capital side to get there?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, so a couple of things. We are driving at all levels. I think -- and I'll let Mike comment on the expenses, but just in general, we've got changes going on in the market that require that we be nimble about adjusting expenses as markets come and go. I think we're demonstrating we can do that. Each of the businesses have slightly different dynamics associated with it, but we feel very good about the targeted growth areas around mobile, around what we've got going on with vehicle service contracts both in the U.S. and in Latin America. Mike, do you want to...

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I don't know that -- just the themes that we've talked about, Mark, are really where we're continuing to focus. As Rob said, driving at that growth, particularly in mobile. We also like to sell our service contracts, and we're seeing good growth there. Continued growth in Latin America is important, and expenses are going to continue to be a focus. We took some more action in Europe this quarter. And overall, Solutions, if you think about the domestic credit business, that continues to sort of run off. We've got to continue to drive at that expense control. On the capital side, Solutions has a relatively complicated structure. There's lots of entities, but we're constantly looking for opportunities to take capital out. Just like in all of our businesses, we want to capitalize appropriately for our best ratings and then get everything else up to the holding company. A little more complicated in some of the entities, but we continue to work on a regular basis at that.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. Just on the T-Mobile program, is there any way of framing out a 3- or 5-year revenue opportunity for this? I'm going a little bit by memory. I thought that you kind of did that on the Telefónica deal. I'm just curious if there's any way of thinking about this 26 million subscriber base, and how big can this program get?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. So, I'm going to take a step back because I think you've got to frame this and give T-Mobile tremendous credit for what they've done here. Because think about what they've done is they've introduced the program that is both offensive and defensive. So on the offensive side, they're trying to grow new subscribers, and they've got a program now that will be attractive to anyone who is looking to be with a carrier that will allow them to upgrade regularly, okay? And we've introduced, and we're all of like 2 weeks into it. Enthusiastic start, but way too early to know exactly what it's going to mean. In addition, it's defensive in that the current subscriber base was 26 million subscribers. Anyone who might be contemplating leaving them for a phone upgrade now is going to say "Gee, I can get this here and going forward, I can upgrade a couple of times a year." So they've really got a great program designed. What we're going to find out is, gee, how many new subscribers does it help them attract, and how many of their existing subscribers are going to convert? And we'll know a little bit more about that in a couple of quarters, but I think trying to speculate on it right now is -- we'd just be guessing.

A. Mark Finkelstein
Evercore ISI, Research Division

Out of curiosity, the public health exchange deferral until 2015, why?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Well, I think it's just looking at the difficulty in the exchanges getting up, exactly getting a line of sight on who they're going to attract. We sat and looked at our existing insureds and distributors and said, "Our time would be better spent making sure they understand how they're impacted than trying to attract particularly new people on the exchanges when it's unclear just how many are going to be attracted to them." So we're focused on that large distribution footprint we have. Our national distribution relationships with State Farm, USAA -- we just thought the resources were better applied there.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

And there are so many unknowns with the exchange and how people will react and purchasing decisions, and we think we can get the learnings from that by observing from the side and, as Rob said, putting our resources into other areas to be sure we're ready to go in 2015. I'd also note that I think from -- you read as much as I do, but other carriers are thinking about this same issue, and you're seeing a lot of carriers being pretty cautious about the degree of participation in 2014 as well.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. I was just -- no change in strategy between kind of major medical and the access product in terms of emphasizing access disproportionately relative to what you've been doing?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

No.

Operator

And we'll go next to John Nadel with Sterne Agee.

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

A couple of questions for you guys. Rob, if I think a bit bigger picture about the mobile wins here with T-Mobile, I think you mentioned a couple of things with Sprint as well. When I think back a couple of years ago, when you guys bought the -- I think it was called Signal Holdings, when you made that purchase, I think at the time you said, "We'll need to win a couple of new relationships or contracts for this to truly pay off and achieve targeted returns." Assuming you get some growth out of these new relationships, in particular, T-Mobile, does that get you there?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, a couple of things. Certainly, we're thrilled about the wins we've got going on, and I think they demonstrate that we're a player in this market. The Signal is an asset we are leveraging that's helping us in all of these different areas. And you're right, John, I certainly said that we were going to need to grow our footprint in mobile for the signal acquisition to be a success. I think last year, we also told investors we're earning targeted returns in the mobile business already. We think that these new programs provide us an opportunity to continue to demonstrate we can come up with things that are appealing to our partners and to their consumers in the marketplace.

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

And then in particular, on the T-Mobile program -- so this sounds like it's an administrative sort of fee relationship. I guess you'll be booking gross premiums, gross written premiums, but it sounds like that will be ceded right back to T-Mobile. So how should we think about -- and can we think about like the way that the margin works on this business? Or can you give us some color? Maybe just not specifically on T-Mobile but just in general on how an administrative arrangement would work versus a true insurance arrangement on the mobile side?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. Mike, why don't you start by just commenting on these large relationships?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Sure. Well, these type of arrangements, just like in case of our large credit arrangements in the past, there's multiple ways to structure the deals, and they're customized to each client. But you're certainly -- we need to finalize the details of the T-Mobile arrangement. But assuming, as we said, that it's likely to be reinsured, then you're right, John. You would see gross written premiums, you would see ceded, you'd get some fees, you'd get ceding commissions. So there's a variety of sort of details that have to go through. And once those are all final, we'll be able to talk a bit more about those. But overall, we still feel really good about the pricing of the business, the return potential of it, et cetera.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, and I'd just point out that, again, if they decide to reinsure, we're just going to have to put up a little bit less capital. We are the risk manager on the program for them. We're doing a lot of the logistics -- logistics support, et cetera. And I think we feel tremendous about having landed this relationship.

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

Yes. I know, I get that. I mean, if we're -- if we compare and contrast, though, a fee type of arrangement versus one where you're truly taking insurance risk, is it fair to say that there is no capital requirement in the former versus something fairly significant in the latter?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I wouldn't say no, because obviously there's working capital issues, John...

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

The inventory.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

And when you think about all those things, yes. But I think we are doing a lot of things to try and support T-Mobile, just as we try and do with service contract providers, as we've historically done with credit insurance business. I think we can find lots of ways to help them.

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

Okay. Just a housekeeping item. Can you remind us -- I know you guys took $185 million in dividends up from the subsidiaries of the operating companies in 2Q. Can you remind us what that number was in 1Q?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I think so far this year, we're at about over...

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Just over 200, I think.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

206 maybe, I think.

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

Okay. So it was modest in 1Q. Okay.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes.

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

And then just when I think about that ceded -- it was within the Specialty Property business, and now you've broken out that ceded to clients for us. How should we think about potential for other clients to discontinue that as we move forward? I know part of the New York settlement specifically states these arrangements have to be terminated. Are we there yet that all of those have been terminated?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Mike, you want to comment on that?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, New York, we're certainly complying with all the provisions there. More broadly, we just have a handful of clients that cede, John, that we have reinsurance. And all those make specific decisions about how they want to handle their arrangements. And so whether they choose to continue or not continue is really their decision.

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

Yes. No, I get that. I'm just -- I guess I'm more curious whether there's been any real dialogue with that handful of clients without naming names or sizing each one. It seems to me that -- I don't know, my sense is that the direction here is that, that would -- that ceded to clients would continue to decline. Are you having those discussions, or is it just not happening?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I think those are really client decisions. And if they approach us, we certainly, again, just -- it's really kind of like the T-Mobile discussion we have. There's lots of different ways to structure things here. And how the transfer of risk mechanism works on this, we're going to be back on the risk on some things that had previously gone to a client.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, as you know, and just to say it, obviously, if the reinsurance goes away, the risk changes, the claims -- these things are all risk-transfer mechanisms. So it's important to keep that in mind, too.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

And then I just have one last quick one, and that is do you guys feel like you have any visibility on the timing for some resolution on the Florida and New York case filings?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

It's a back-and-forth process. They've asked a number of questions. We've responded. They've asked a few more, we've responded. So it's just an iterative progress, John.

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

But it is in their court at this point?

Christopher J. Pagano
Chief Risk Officer and Executive Vice President

Correct.

Operator

And we'll go next to Steven Schwartz with Raymond James and Associates.

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

Want to, I guess, just rehash a couple of things here. With response -- with regard to the captives ceded, Jeff's question. To start this off, I didn't really understand it, I guess. I want to ask it a different way. Going forward for the rest of the year, all else equal, just looking at the ratio of ceded premium to captives relative to gross, should that ratio change because of this change from this one client?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, again, it'll go down for that client. The aggregate amount depends on growth in other reinsured clients.

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

No, of course.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

But this one of course will go down, yes. There's an unearned premium, essentially, at the end of June that will run off through our income statement over the next 12 months, basically, and the ceded amounts will run off then.

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

Okay. And then the new portfolio business that you're putting on in Specialty Property, the $1 million. Could you remind us, is that flat cancel?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

It is. That will start to contribute over the second half of the year.

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

Okay. And then just returning to health, just so I'm clear here. So you're not going to participate in the exchanges? I know you sell access products, you sell short-term medical products, you sell supplemental products as well, but you also sell individual major medical. Will you be able to continue to sell major medical in 2014, off the exchanges, without customers having to pay the penalty?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. In fact, I mean, I would go so far as to speculate that most of the individual health insurance will be sold off-exchange.

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

Okay. Well, I'm just talking about individual major medical here.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I'm talking -- that's what I'm talking about. I'm not talking about for us particularly, I'm talking about for the whole market.

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

Okay. And then to -- it has been rumored that Assurant -- I guess, talk -- Assurant, among others, has been very, very active in renewing individual major medical policies off the original renewal dates. Could you discuss that?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. I think the big key is there's a lot of uncertainty surrounding health care reform, and we have a lot of customers who are seeking clarity and certainty on how to deal with things. And we certainly have a program in place that allows new customers a line of sight on keeping their business under current arrangements through December 14, I believe. And I'm sure some of that may be spilling over to the existing in-force as well. I think it's largely geared towards new buyers, but I think it's probably gone that way as well.

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

Okay. So my question, then, is to what extent did that -- because you talked about the access products, what have you. Was that a major player in the increase in sales and premium in the quarter?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, so I think about things 2 ways. First is the access versus major medical is really a suitability decision, Steven, around assessing the buyer's needs. And a lot of that is around affordability, okay? I certainly think that buyers in the marketplace who look for having clarity around their major medical purchase through the -- late into '14 certainly helped us. It helped us drive sales. But as well, with that, our rollout with Aetna's certainly helped us be more competitive in all the major medical markets, and that's been a contributor, too. And then I'd also add, we've worked hard to help distributors understand how things are going to work, and I think a lot of them are appreciative of that and see opportunities for themselves in the health marketplace as a result.

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

One more, if I may, back on Specialty Property. The -- your premiums were up very -- not gross written premium, gross earned premium. Up very, very nicely sequentially. Yet, if you look at the number of loans that you track, multiply that by the placement rate, the number of loans that you have insured probably didn't increase, maybe slightly decreased, maybe slightly increased because from the first quarter, yet you had that nice surge in premiums. Also, the total insured value fell. So is that increase that we saw sequentially, is that really renters?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. So lots of different things in there, but I think the first is that we've added 900,000 loans. They're not producing yet. And I think similarly, when we added some loans in the first quarter into the totals, they were only producing a little bit. So we're trying to give you a representation on the number of tracked loans. I think it then needs to be distilled a little into which of those are producing or not producing. But then if we move over to our renters area, we are seeing very nice growth in that business and feel good about the prospects there as well. We've mentioned that things are up in all our different products in the property area. So, I think, progress on all fronts.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

And until you get the loans on board, you don't have a clear line of sight as to the sort of the placement rate characteristics of those either, Steven. So that just introduces a little bit of uncertainty in looking forward, too.

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

Right. I understand that, Mike. The -- where I was getting at here was that if you were to take a look at the loans that you track, I'm assuming those are considered on board, or I've always thought that's what that meant. And then you multiply that by the placement rate, the number of actual loans being insured didn't change between the first quarter and the second quarter.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I think in a steady inventory situation, that would be true, Steven. With all the movement we have going on in these portfolios, we have to go through a letter cycle before they might produce. You just introduce a lot of vagary into some of the placement rate numbers.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

And the timing of when the loans come on, and then what's happening with the legacy policies, as well, all those things. You're doing a method there that makes sense conceptually, but there's just a lot of detail under the covers when you try to convert some of those broad, aggregate indicators we give you and try to translate them into the actual income statement. It's just a little bit complicated by a lot of timing issues.

Operator

And we'll go next to Sean Dargan with Macquarie.

Sean Robert Dargan
Macquarie Research

I have a question about Solutions and your mobile program with T-Mobile. I mean, I think you alluded to it, but it seems like we're going through a fundamental shift in the way subscribers buy phones in this country. So can you just describe how that works? I mean, why would I buy a warranty if I can just get -- or buy a newer phone 6 months from now with no penalty?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

I mean, a couple of things. I think your first point is absolutely an issue that's going on, which is the phone and how it's paid for has been a part of the monthly service fee. And I think that, that's something all carriers are reviewing and trying to figure out, are there different ways to deal with that, okay? So I think that one trend is, "Hey, I have to buy a plan and I get the phone at a subsidized rate." I think carriers are reviewing all that and saying, "Are there different ways to do that?" Okay? Now I'd separate that from -- in terms of the warranty, it's not just a warranty. There's a lot of things involved in the services we provide. So I would say that trying to look at just the warranty aspect maybe isn't the right way to think about it. I think it might be to think about, "How do I protect my data, how do I make sure I have that phone to me immediately?" All these different components start to work in. "Gee, I want to trade in the phone that maybe I'm paying for myself. How does that work?" All that is wrapped up into this kind of program that T-Mobile's introduced.

Sean Robert Dargan
Macquarie Research

Okay. And then when we think about the portfolio adds that you've been having in recent quarters in the Specialty Property, what's driving that? I mean, where are they coming from, and why would somebody not want those portfolios?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, we think we do a great job at servicing our clients. We've been at this for a long time. We've got the systems and processes, and I think our clients are very happy with our service. So whenever there's sort of RFPs, we feel real good about our chances of winning business through the RFP process. And then you've also got different servicers and banks out there that are making decisions about their own portfolios, and so sometimes they'll decide to sell the servicing rates or move the servicing rates. And so by our presence in the market, we often are able to win as -- grow along with our clients because we stay aligned with the industry leaders in the marketplace.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

That's right. So I mean, if you put that at a big macro level, the money center banks have capital requirements related to the mortgage servicing rates. And I think all the time, they're trying to evaluate that capital requirement. And some of them have made decisions to sell loan portfolios to free up capital that's required to be held around the mortgage servicing rights, and the buyers of those are other specialty servicers. And we've got good alignment there.

Operator

And we'll go last to Seth Weiss with Bank of America.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Maybe just to focus on the one segment that hasn't really been asked about, Employee Benefits, which I know it's a similar ROE goal as Solutions. But obviously, it's farther behind in terms of the ROE progress. Maybe from a high level, you could help us think about the trajectory of that and when we could start to thinking about getting to a 14% goal in terms of high level, and maybe more detail, then, on the immediate -- the recent rise in rates and how you think about that in terms of your reserve and discount rate, which I know is flat for this quarter.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, let me start at a high level, and then Mike can give some more detailed comments on that. But we're making a big push into the voluntary marketplace. We believe that those products are less capital-intensive than traditional disability. We've also been emphasizing dental. Again, similarly, a lower capital requirement commitment. Mike, do you want to talk about LTV?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I think when you look at benefits, certainly in the near term, they're pressured a little bit in the disability business. We've talked about recovery rates in the small employer space. We look typically at our discount rate annually when we -- sort of in the fourth quarter, we review our reserve assumptions and things like that. We made a change last year, and we'll look at it again this quarter. But more fundamentally, I think, for benefits, I mean, we have a scale issue with benefits. They need to grow in that voluntary space, as Rob talked about. We think that's a very attractive space. We continue to believe that the work we're doing at Benefits to improve our enrollment processes and administrative support for the voluntary business is resonating with small employers and that the issues around small employers struggling with medical, and so they increasingly look to voluntary products for their -- or voluntary mechanisms for their ancillary products, we think we're gaining traction there. And we think that, that administrative and enrollment complexity is something that no one has solved, and we think we're ahead of the pack there. So we really feel good about the prospects of -- in the voluntary space for benefits going forward. So to your point, we've got to see the growth in voluntary. And hopefully, as the economy strengthens, return-to-work rates will improve, and that will help the disability. And then in dental, we've got one of the leading networks. Dental is a highly valued product among employees, and we're seeing great results there. And then we'll continue to drive toward, as with all of our businesses, optimizing the capital within employee benefits, too.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

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

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