S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

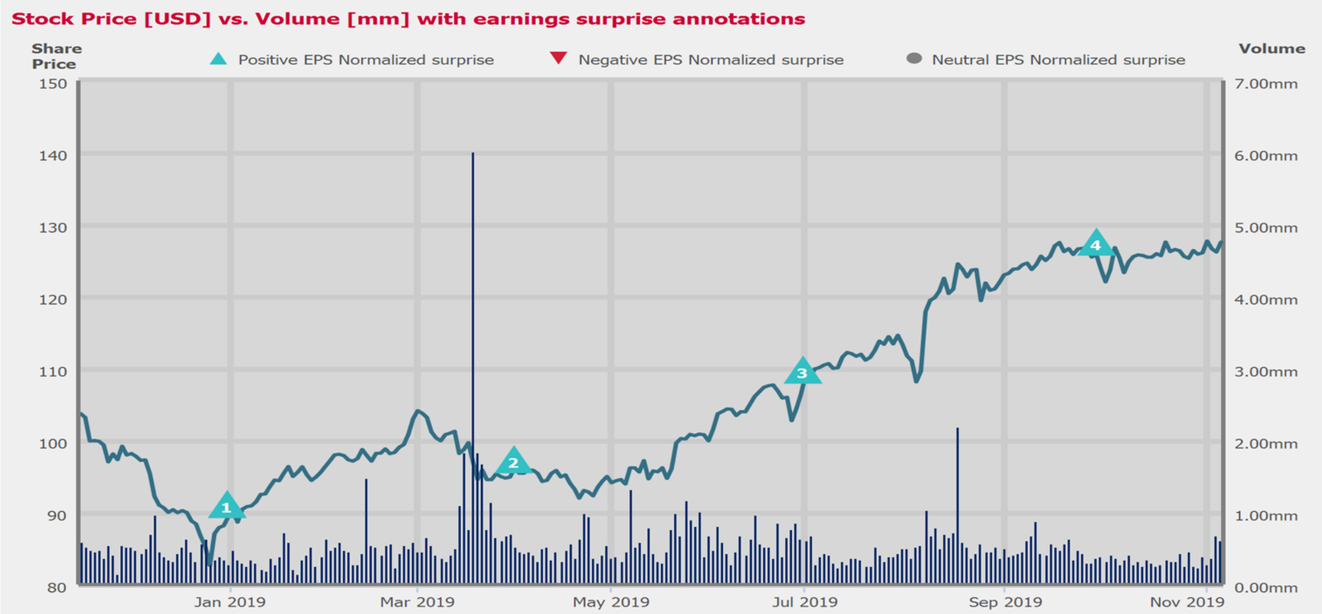
FQ3 2019 Earnings Call Transcripts

Wednesday, November 06, 2019 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2019-			-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.66	1.69	▲1.81	2.24	8.48	9.71
Revenue (mm)	2557.18	2499.30	▼(2.26 %)	2623.89	10162.17	10390.54

Currency: USD
Consensus as of Nov-06-2019 7:06 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2018	0.42	0.77	▲1 83.33 %
FQ1 2019	2.15	2.21	▲2 2.79 %
FQ2 2019	2.12	2.34	▲3 10.38 %
FQ3 2019	1.66	1.69	▲4 1.81 %

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Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Richard Steven Dziadzio
Executive VP & CFO

Suzanne Shepherd
Senior Vice President of Investor Relations

ANALYSTS

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Gary Kent Ransom
Dowling & Partners Securities, LLC

John Matthew Nadel
UBS Investment Bank, Research Division

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Presentation

Operator

Welcome to Assurant's Third Quarter 2019 Earnings Conference Call and Webcast. [Operator Instructions]

It is now my pleasure to turn the floor over to Suzanne Shepherd, Senior Vice President of Investor Relations. You may begin.

Suzanne Shepherd
Senior Vice President of Investor Relations

Thank you, Jack, and good morning, everyone. We look forward to discussing our third quarter 2019 results with you today. Joining me for Assurant's conference call are Alan Colberg, our President and Chief Executive Officer; and Richard Dziadzio, our Chief Financial Officer.

Yesterday, after the market closed, we issued a news release announcing our results for the third quarter 2019. The release and corresponding financial supplement are available on assurant.com. We'll start today's call with brief remarks from Alan and Richard before moving into a Q&A session.

Some of the statements made today may be forward-looking. Forward-looking statements are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by these statements. Additional information regarding these factors can be found in yesterday's earnings release as well as in our SEC reports.

During today's call, we will refer to non-GAAP financial measures, which we believe are important in evaluating the company's performance.

For more details on these measures, the most comparable GAAP measures and a reconciliation of the 2, please refer to yesterday's news release and financial supplement.

I will now turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Suzanne. Good morning, everyone. Our third quarter results were strong, driven by continued momentum in our Global Lifestyle business, where earnings increased 35% year-over-year. Growth was mainly driven by mobile, which benefited from new and existing clients. We now support 52 million mobile subscribers, an increase of 18% year-over-year.

At the same time, we invested in our business to support the launch of new offerings and client programs, while expanding our infrastructure to support future growth. These investments, which will continue into the fourth quarter, will help sustain double-digit earnings expansion and strong cash flows long term.

In the third quarter, within Global Lifestyle, we launched a new partnership in Japan with Rakuten, a large e-commerce retailer. We are now providing mobile device protection for their existing and expanding mobile networks. Given our shared commitment to provide a superior customer experience, our offering also includes a fully digital claims experience and a rapid 4-hour mobile delivery service.

In the U.S., we renewed our 13-year partnership with DISH Network to continue to provide extended service contract protection for satellite receivers and set-top boxes. These partnerships are a testament to our differentiated capabilities

[Audio Gap]

since we've made to drive more value to our partners and better experiences for their customers.

Our market success with new and long-term clients positions us well to play a key role in the Connected Living ecosystem, supporting mobile carriers, OEMs and cable and satellite operators.

As we look to further enhance the customer experience, last week we announced our acquisition of CPR, a leading provider of local device repair services. With more than 700 franchise stores globally, this investment broadens our fulfillment options, providing customers increased choice through same-day repair options. Longer term, we believe we can drive incremental revenue growth and operational efficiencies as we cross-sell protection programs and other services.

In Global Automotive, we remain focused on identifying opportunities to leverage our leadership position to scale in key global markets. In China, we recently refocused our operations to capitalize on the sizable auto opportunity, including the growing electric vehicle market. This includes a new partnership with a leading Chinese OEM focused solely on electric vehicles. This supports the expansion of our auto business globally, while also gaining further insights into the evolving electric vehicle market.

Overall, our offerings and new partnerships support our Investor Day objectives for Global Lifestyle. We believe that we can grow net operating income in the segment by at least 10% on average from 2019 to 2021 and continue to produce strong cash flows.

Moving to Global Housing. I'd like to start by thanking all of our employees who supported our policyholders during Hurricane Dorian and Tropical Storm Imelda. As we pre announced, we incurred $36 million of after-tax losses, mainly related to those events. Our relentless focus on customer service remains a competitive differentiator. This quarter, within our lender-placed business, we renewed another 3 client partnerships accounting for 3 million tracked loans. Looking at the past year, we've now renewed client relationships representing more than half of our tracked loans, further solidifying the strength of our franchise. Overall for the segment, we were focused on continuing to deliver strong cash flows and better than market return on equity, targeting between 17% to 20% return on equity with an average cat load. This will be supported by the expansion of our Specialty Property offerings, including multifamily housing.

Turning to Global Preneed. We produced strong earnings, excluding a onetime adjustment, which Richard will detail later. Preneed assets are up 4% year-over-year, reflecting growth in face sales. Additionally, we have seen a

[Audio Gap]

shift to a multi pay mix of business, which will further strengthen our ability to sustain solid returns and cash flows. We remain confident that we can deliver above-market operating return on equity of 13% long term.

Looking at our key financial metrics for the first 9 months of 2019, net operating income, excluding catastrophes, was up 17% to $435 million, mainly from TWG contributions, including realized synergies as well as significant organic growth

[Audio Gap]

we also reported net operating earnings per share, excluding catastrophes of $6.96, an increase of 9% year-over-year. This was driven by strong earnings growth, partially offset by the impact of shares issued last year for the TWG acquisition.

At the end of September, holding company liquidity totaled $385 million after returning $103 million to shareholders in the quarter. Through the end of the third quarter, we returned a total of $279 million to shareholders.

Year-to-date, we're pleased with our progress against our 2019 commitments. For the full year, we still expect earnings per share growth between 6% to 10% compared to 2018. We remain confident in our ability to deliver on our Investor Day objectives to expand earnings by double digits, drive strong cash flow and return $1.35 billion to shareholders through 2021.

To best ensure that we deliver on these commitments, we are focused on a few critical multiyear priorities: our people, customer experience and innovation. Our people are and always will be central to our success. We will stay focused on finding ways to attract, retain and further develop our top talent and strengthen our culture around the world.

Customer experience remains a key competitive differentiator for our organization. Our focus will be on finding new ways, whether through technology, new offerings or other means to raise the bar on the experience we create and deliver to end consumers. Doing so will also result in deeper relationships with our key clients, particularly in global mobile, auto and multifamily housing.

And lastly, innovation. We will put even greater emphasis on driving how we will innovate across our business to support the ever-connected lifestyle of consumers globally.

I'll now turn the call over to Richard to review segment results and our 2019 outlook in greater detail. Richard?

Richard Steven Dziadzio
Executive VP & CFO

Thank you, Alan, and good morning, everyone.

Let's begin with Global Lifestyle. Segment reported earnings of $102 million for the third quarter, up $26 million year-over-year. As Alan noted, performance was driven by strong results in mobile, which reflected continued subscriber growth from carriers in Asia Pacific and North America, including the launch of Metro by T-Mobile in July. U.S. traded volumes also increased year-over-year, and Europe benefited from better operating performance.

Global Automotive earnings were up $4 million, reflecting organic growth, particularly in the U.S. Total revenue for the segment was up $208 million or 13%. The increase was driven by Connected Living growth, primarily mobile expansion across our suite of offerings for carriers, OEMs and cable operators. To a lesser extent, we also saw growth with extended service contracts. Auto revenue

[Audio Gap]

4% relative to a strong quarter last year. Growth reflected prior period sales in our national dealer and TPA channels. As we have previously highlighted, we expect to accelerate investments to support growth, particularly in mobile, in the fourth quarter, mainly reflecting initial program startup expenses for new clients and our strong pipeline. This should result in modestly lower earnings for Lifestyle in the second half of 2019 compared to the first half, but in line with our original expectations.

Looking ahead to 2020, earnings expansion will moderate as we will grow off a much higher base in 2019, which benefited from a full year TWG contributions. While growth may not be linear, we still expect earnings to increase at an average annual growth rate of 10% over the period

[Audio Gap]

'19 to 2021. Moving to Global Housing. Net operating income for the quarter totaled $42 million compared to $19 million in the third quarter of 2018. The increase was primarily due to $31 million of lower reportable catastrophes. Excluding reportable cats, earnings declined $9 million. This reflected lower income from lender-placed, driven by year-over-year decline in placement rates and policies in force as well as a less favorable non-cat loss ratio.

Losses from our small commercial products improved from the first half of this year. In the quarter, we strengthened our reserves to account for recent loss trends and will continue to monitor claims experience closely.

Turning to revenue. Global Housing net earned premiums and fees declined, reflecting the sale of mortgage solutions in August 2018. Excluding mortgage solutions, revenue grew modestly, driven by our multifamily housing and Specialty Property businesses, partially offset by declines in lender-placed. Looking at lender-placed in greater detail, the placement rate declined 6 basis points year-over-year and remained unchanged sequentially, consistent with the anticipated portfolio changes.

Looking ahead, due to the insolvency of one of our clients, we expect our tracked loan count to decline by approximately $600,000 over the next few quarters. This block of business represents approximately $70 million of annualized revenue and is expected to transition starting in the fourth quarter. For Global

Housing overall, we continue to expect net operating income for 2019 to be down modestly, excluding cat losses, though the elevated small commercial losses incurred this year.

Lender-placed earnings, excluding the higher cat reinsurance costs, will likely be down slightly compared to 2018 rather than flat, once we take into account higher non-cat losses and the reduction in loans referenced earlier. We expect sustained growth in multifamily housing and expense management to partially mitigate the declines.

Now let's move to Global Preneed. The segment reported $7 million of net operating income, a $9 million year-over-year decrease. The decrease was driven by an error in the calculation of our deferred acquisition costs over a 10-year period. The charge was immaterial to any period, but aggregated to $10 million in the third quarter. Excluding the charge, earnings were up -- earnings were $17 million, up modestly from the prior period, driven by both higher income from real estate joint venture partnerships and increased assets.

Revenue in Preneed was up 6%, driven by continued growth in the U.S., including strong sales of our Final Need product. We now expect Global Preneed's earnings to decline due to the onetime accounting adjustment. Excluding the adjustment, results would have trended in line with our original expectations for the year.

At Corporate, the net operating loss was $21 million, up $2 million compared to the prior year period. This was a result of lower tax rate due to the net loss in the quarter. The net loss was primarily driven by our investment in Iké Asistencia. For the full year 2019, we still expect

[Audio Gap]

to approximate 2018 levels or roughly $85 million. As we announced in May, we began a process to explore strategic options for Iké. In the quarter, we recorded a $125 million charge to net income, reflecting our intent to sell the asset. The charge is based on the current estimated value of our 40% ownership interest, the value of our put call option and the cumulative foreign currency losses. However, as the process is ongoing, there can be no guarantees that we will ultimately conclude a sale.

Turning to the holding company liquidity, we ended September with $385 million or about $160 million above our current minimum target level of $225 million. Dividends in the quarter from our operating segments totaled $217 million.

In addition to our quarterly corporate and interest expenses, key outflows included $65 million in share repurchases, $42 million in common and preferred dividends and $28 million mainly related to a contingent payment for a block of flood policies acquired in 2016.

In the quarter, we also had cash outflows of $39 million related to expenses from refinancing debt at a lower interest rate. We are pleased we were able to secure new 10-year senior notes at an attractive coupon, lowering our overall interest cost to approximately $80 million after-tax on an annualized basis, while lengthening the maturity of our borrowings.

For the full year 2019, we expect dividends from our operating segments to approximate segment operating earnings. We brought up nearly 90% of segment net operating earnings as dividends to the holding company through the first 9 months of the year. Overall, these dividends should provide flexibility to invest in our businesses and return capital to shareholders

[Audio Gap]

market conditions.

In summary, we've demonstrated strong performance in the quarter. We remain focused on delivering profitable growth and meeting our financial commitments for 2019 to serve as a stronger foundation for 2020 and beyond.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mark Hughes with SunTrust.

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

Richard, you had talked about the guidance, both of you did, the 10% annual growth between 2019 and 2021. Could you make a commentary about 2020 in the course of that?

Richard Steven Dziadzio
Executive VP & CFO

Yes, Mark. So as we will always do and have done in our fourth quarter earnings call in February, we'll provide a lot more granularity on how we think about 2020. But we're still very confident in the view that we provided back at Investor Day of, on average, annual growth of 10%-plus for Lifestyle, 12%-plus for EPS. The challenge in 2020 for Lifestyle is we've had such a strong growth in 2019 that we have a much higher pace, and we had a full year of the TWG synergies. That's going to make it just harder to sustain that level of growth in 2020. But the business is well positioned, and we feel our franchise is strong.

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

Your point is that it'll be hard to sustain this level of growth, but you still feel confident in the guidance that you provided. Is that it?

Richard Steven Dziadzio
Executive VP & CFO

Yes. Yes, Mark, that's correct.

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

Okay. And then the -- from the TWG perspective, I think your outlook for costs, you said that the -- or cost efficiencies, you said at the higher end of the range

[Audio Gap]

anything more, any other opportunities you see on a go-forward basis, either from a standpoint of

[Audio Gap]

cost efficiencies, the efficiency of your repair network that we might anticipate?

Alan B. Colberg
President, CEO & Director

Yes. I think if we step back, we feel very good about the TWG acquisition and the integration. As we said earlier this year, we've achieved our synergy commitment publicly ahead of plan. With that said, we continue to look for growth opportunities. The thing I mentioned on the call about our new partnership in China this quarter on electric vehicles, we would never have achieved that without The Warranty Group. And so over time, we're going to look for other opportunities like that, that will enable us to grow revenue, not just improve their profitability. So I think we're well positioned. And at this point, we're a global market leader in auto, and we're trying to leverage that scale everywhere we can.

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

And then last question on the lender-placed business, you've held steady in terms of placement rates. The placement rates in the last couple of quarters, I think there's been some mix

[Audio Gap]

that's influenced that. When you talk about on an underlying basis, it seems like some of the data, at least on early delinquencies is suggesting an uptick, and I wonder whether you are seeing any impact of that? Or what's the normal timing where you would see an impact on your [placement] rates, if early-stage delinquencies are starting to move up?

Alan B. Colberg
President, CEO & Director

Yes. I think it's fair to say we're not really seeing anything in our business at the moment. The reality is in that business, it is a big countercyclical hedge. We don't tend to place until it's later in the cycle, the loan has moved into serious delinquency foreclosure. So if there is any slowdown starting to happen, that'll benefit us later.

Operator

John Nadel with UBS.

John Matthew Nadel
UBS Investment Bank, Research Division

So I think this is the first quarter that the year-over-year comparison within Lifestyle is fully inclusive in both periods of The Warranty Group, correct? So the revenue growth was, I think ex currency, 14%, 14.5% year-over-year. Is that, Alan, as you think about 2020, is that the piece of the growth rate where you'd say, probably a little bit more challenging to sustain that on a year-over-year basis and therefore, that growth rate maybe slows down, and that's the reason why earnings growth slows down? Or is it really just the fact that you've got such a faster pace of earnings growth in 2019, owing to things that you mentioned like the expense synergies?

Alan B. Colberg
President, CEO & Director

Yes, John, appreciate the question. So the challenge with revenue is, as we've talked about in prior quarters, if we change the contract structure, which happens often with our clients, our revenue could go down or go up. But it has really no effect on our earnings. So we tend to focus much more on the NOI in that business. And the -- as I mentioned, we've had such strong growth this year. We have a full year of the Warrant Group synergies. It's hard to build off of that at the same level that we've grown in 2019. We also -- we mentioned several new clients on this call. We have others we didn't mention on the call. We're continuing to invest and our pipeline remains very robust for Global Lifestyle overall.

John Matthew Nadel
UBS Investment Bank, Research Division

Okay. That's helpful. And then I just want to think in terms of order of magnitude, last quarter, you guys appropriately sort of gave us some help on expecting that Lifestyle earnings in the back half of '19 would be down modestly from the front half of '19. As we -- as you look at the third quarter results of Lifestyle, is that -- was there anything that was sort of inconsistent with your expectation there? Was that in line? Because I mean that's a pretty modest -- I mean that is definitely a modest year-over-year decline. Should you -- I guess, I know you don't want to give guidance for any single quarter, but is that the kind of pace of decline that's -- that we should expect and as we look forward to the fourth quarter?

Richard Steven Dziadzio
Executive VP & CFO

Yes. I'll take that, John. I think as we looked at it, we came into the first half of the year, we basically are looking at half years together. So we're looking first half, second half and signaled that we thought the second half would be lower than the first half. I think as we sit here at the end of the third quarter and looking at the second half, it really is coming in line with our expectations. I think we've seen some that trade in -- some of the trade-in volumes go down as we had anticipated, given the strong first half of the year we had. At the same time, we've seen strong growth in Asia Pacific, the U.S., improved profitability in Europe, which we had been planning on too. So overall, we're in line with our expectations, as Alan said in his opening statements.

John Matthew Nadel
UBS Investment Bank, Research Division

Okay. And then I just had one more and it just escaped me, so I will requeue.

Operator

Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess another crack at that -- the prior question with 4Q. If we look at your guidance for this year, you're kind of a little bit above the midpoint right now. And I guess if we couple that with your -- the last comment, 2 half being a little bit less than 1 half, is -- and you don't give -- I guess I don't see the extra incremental expenses that you're putting into mobile on a quarterly basis or what you did this quarter. But should we expect the amount of investment expense in the fourth quarter to be accelerated from third quarter, from what you did or in line to third quarter? And I ask that just to think about kind of how we're thinking about that range of 6% to 10%, given where you already are today and what the extra expense might be in the fourth quarter?

Alan B. Colberg
President, CEO & Director

No, I think it's fair to say in the fourth quarter, we're going to have accelerated investment. We are very encouraged by the new clients that we're ramping in the pipeline and we're investing to deliver future growth and profitability. So yes.

Michael Wayne Phillips
Morgan Stanley, Research Division

And so just to clarify, when you say accelerate, you mean on top of not just first half, but on top of third quarter as well, correct?

Alan B. Colberg
President, CEO & Director

Yes.

Richard Steven Dziadzio
Executive VP & CFO

And I guess in addition to that, when you say the 6% to 10%, you're really talking about Assurant overall EPS?

Michael Wayne Phillips
Morgan Stanley, Research Division

I am. Yes, that's correct. Yes.

Richard Steven Dziadzio
Executive VP & CFO

Yes. And we've talked about small commercial being out there, some continued declines in financial services. So there are a couple headwinds that we're taking into account when we're giving that range to you.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Okay. I guess just 2 kind of smaller ones real quickly. You mentioned the mobile growth, specifically in Europe, was strong. And can you talk about maybe what's kind of driving that?

Alan B. Colberg
President, CEO & Director

Yes. So mobile growth has been strong in all regions. In Asia Pacific, especially Japan, it's really new clients and new programs. In Europe, it's really been a couple things. We've leveraged our global supply chain capability out of the U.S. to really strengthen our supply chain in Europe, and that's been a big driver. We've also been very disciplined with expenses, which has helped NOI growth, but we're encouraged. We're seeing strong growth in effectively all regions of the world in mobile.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. And just lastly, this one doesn't get a lot of attention. But in Lifestyle, the Global Financial products, I mean decline there was kind of more than expected, at least from -- expected for me. Any numbers in the quarter there? And then kind of the margins continue to slip a little bit there. So any kind of color on that segment?

Alan B. Colberg
President, CEO & Director

I think what we said before, Mike, is that the segment, that line of business is in runoff domestically. There's probably a little bit of FX going on in there as well. So yes, it was down in the quarter. You're right.

Operator

Christopher Campbell with KBW.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

I guess first question on the Global Housing, the guidance decline there. I think last quarter, you guys had said that it was -- you thought like the loans tracked would be like, I guess relatively like [indiscernible] I guess, kind of what changed the guidance this time?

Richard Steven Dziadzio
Executive VP & CFO

Yes. Well, yes, thanks, Chris. I guess one of the things that we pointed out in the opening remarks, I think is part of the need for the change, which is the insolvency of one our clients, and we see those loans transitioning away in the fourth quarter, that will have an impact on us. And we've also seen year-over-year a small increase, but an increase in the noncat loss ratio. So we're taking those 2 factors into account to kind of change the outlook and say, before we had said that it would be flat; now we're saying it'll be down a bit.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, got it. So it's -- okay. So what we're seeing this quarter is not related to the loans that the competitor picked up, but these are like additional loans that were a client insolvency. Is that the way to think of it?

Richard Steven Dziadzio

Executive VP & CFO

Yes, that's right. That's right, Chris.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Okay, great. And then CPR, I mean it sounds like it's small. Is there going to be any revenue or EBITDA impact from that, that we should be modeling in?

Alan B. Colberg
President, CEO & Director

No, the way to think about CPR is we're in the business of delivering superior customer experiences and the way [indiscernible] it's evolving is our traditional depot model, the big facilities works really well for buyback and trade-in, and that's going to continue to be a very important driver. But increasingly, consumers are asking for same day, same-store type repair. CPR gives us that capability. So over time, it'll be potentially a significant growth driver for us, but it's going to take us time to integrate it, build it into our offerings, get our clients to offer it. But we're excited, it gives us the capability to deliver yet another really superior customer experience.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And should we be thinking about incremental investment costs as you try to kind of unlock the synergies for that, that are -- that could impact Lifestyle segment?

Alan B. Colberg
President, CEO & Director

Nothing more than we've already talked about. We expect to accelerate investments in Q4, but that alone is not going to be a big driver of it.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. And then you reviewed the Iké stake this time and took the charge. I mean are there any other underperforming areas that you're kind of looking at across the portfolio of products that you're looking to prune to improve results?

Alan B. Colberg
President, CEO & Director

So we go through a regular process with our Board, looking at everything we're doing and discussing whether we feel like it's still strategic or not. Iké, interesting company, when we made that investment 6 years ago now, it was really about growing to scale in Latin America with additional fee-based offerings. Over the last 6 years, our strong growth in LatAm and then The Warranty Group acquisition, we now have a much stronger franchise in Latin America, which is what led us to take the opportunity to reevaluate. It doesn't fit as well as it did 6 years ago. So we'll continue to look for things. But I think we feel very good about our portfolio at this point. You've also seen us be over the years, very disciplined stewards of the capital of our shareholders, and we'll continue that as we go forward.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And then just kind of unpacking the charge, bunch of it was FX, and part of it was derivatives. So I guess was there like an -- I mean was the marks like all attributable to that? Or has the value of the Iké franchise been materially impaired over the last few years?

Richard Steven Dziadzio
Executive VP & CFO

Yes, I think that we can break the charge down into a couple of things. Total charge being $125 million. The first thing, as you pointed out, Chris, was $41 million is really related to the cumulative change in FX or the FX loss, I would say, the weakening of the peso since our acquisition some 5 years ago, so that's $41 million. The other $84 million, $4 million of it was a deferred tax asset that we took down. And then the other $80 million is really the difference between what we have up on our books for our 40% interest and the 60% interest obligation we have to buy the rest of the 60% and the market value, should we sell the company. And again, as I said in my opening comments, we are in the process, we have advanced in a process but we can't say today that we will conclude a process. So still a ways to go there, and we'll keep everyone up-to-date as we always do.

Operator

Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to follow up on the Iké charge too. Just when I look back at 5 years ago, you put in $110 million and probably a lot of things happened in between, and now there's a $125 (sic) [$125 million] charge. I assume there were some marking up along the way. And I just wondered if you could help me rationalize the beginning and end of the 2 pieces?

Richard Steven Dziadzio
Executive VP & CFO

Sure, sure. I think first of all, when -- just to level set everyone. We talk about $110 million, that was for the 40% interest that we had during the course of time. And we haven't marked up the asset. We've kept it on the books. Obviously, through time, we've gotten income from the assets. There have been dividends out from the asset, so that's changed the book value. And really, what we're coming to now is after 5 years, and during that 5-year period, there actually has been a pretty good weakening of the Mexican peso to the U.S. dollar, $40 million, so that's 1/3 of the charge. The other 2/3 are really -- one is -- one part is based on the 40% interest we have and the book value we have today and our expectations of sale price for that. And then the other is on the 60%, we actually have a call put that we've talked about in the past, and that's had a formula. So we're looking at the market value that we could have in a sale versus what that formula gives us, and that's the other part of the markdown.

Alan B. Colberg
President, CEO & Director

And Gary, the only thing I would add is when you look at the Iké franchise, it remains strong. And that's why we've had a process ongoing that we'll see where we end up. But it is a good company. Just for us, as we think about where best to deploy our capital, it's not 100% certain that's the best thing we should do.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. So in other words, part of the charge really related to the 60% you didn't actually buy yet, that's feeding through this put call option?

Richard Steven Dziadzio
Executive VP & CFO

Yes. That's exactly right. I mean we -- obviously, we have that might -- we call it an option, it's a put call option, right. So more or less an obligation to purchase it. So as we've gone on and said, okay, now we're in the sales process, that's given us visibility in terms of potential pricing. So we take into account, what that is versus what we would sell it for and that difference we've put up in the books. So putting it at our best estimate to date.

Gary Kent Ransom
Dowling & Partners Securities, LLC

And that's been marked-to-market every year along the way? I mean maybe not as thoroughly thinking about an intent to sell, I realize that, but is that a -- that's had a value in there all...

Richard Steven Dziadzio
Executive VP & CFO

Yes. Well, you just hit the nail on the head, Gary. I mean really, we've been holding it until the third quarter as an operating entity with the operations. As Alan said, it's performed fairly well during our period of ownership. It's really in this third quarter that we've said we've advanced in a process. Now we have an intent to sell. What's the sales price? And obviously, we're in -- we're talking about in Mexico, in today and the environment and climate, et cetera. So we take all of that into account in the current estimate.

Gary Kent Ransom
Dowling & Partners Securities, LLC

And just one thing to make clear, this has no effect on your buyback and capital return, correct?

Richard Steven Dziadzio
Executive VP & CFO

Well, I would say, if anything, it could potentially be a net positive because it could give us excess capital if we sell it. Because remember, we've taken into account in our Investor Day that we would hold it. So it would give us excess cash. And then we would see what we would do with that excess capital as we go forward, either return or hold it.

Alan B. Colberg
President, CEO & Director

Yes. And Gary, the one thing I would add is we remain committed to our expectation of returning $1.35 billion to shareholders in 2021. As Richard said, if we do end up ultimately with excess capital, you've seen our track record of returning it. But at this point, it's too early to say anything other than we are still committed to our $1.35 billion through 2021.

Gary Kent Ransom
Dowling & Partners Securities, LLC

All right. That's very helpful. That -- I think I've got it now. I wanted to go to one other topic on mobile. And just as you talk about all of the flow of business, the pipeline. And I think we all know there's a delay in how you invest and you launch the program and then you still have certain customers starting to pay and it builds up over time. And I've -- I'm just trying to think of the timing, if you have things in the pipeline, is some of this actually going beyond our '19 to '21 window? Are we actually setting up, I know we keep talking about out through '21. But when I think about the timing, it feels like today's pipeline is actually partly beyond 2021. Is that -- so can you give us a feel of that, of the timing of all those things?

Alan B. Colberg
President, CEO & Director

Gary, that's absolutely correct, when you think about it. So if you think about a new client that we're launching this quarter, we start generally with no customers. We have to invest to integrate into their systems, to develop the marketing materials, to train people, et cetera. And generally, within a year or so, we start to turn profitable. It generally takes 3 to 4 years for those programs to kind of reach maturity. So a program we're launching today probably doesn't reach maturity until 2022, 2023. And then a pipeline client, we may close on next year or the year after, but we're making investments to proceed, to set that up for the future. CPR is another example of something that will benefit us beyond the '21 period. The last thing I'd say is, if you look at the eventual 5G wave that's going to come, we didn't reflect that anywhere in the '20 or '21 outlook because I think it's going to take a little while. But there's a whole wave of 5G activity coming in the out years for mobile.

Operator

[Operator Instructions] John Nadel with UBS.

John Matthew Nadel
UBS Investment Bank, Research Division

I think I'm recovering from my senior moment. So kind of along the same lines as Gary's question, and I'll be a bit more specific. And I think you already gave a little bit of color, but maybe you can give a little bit more. So if you isolate it on a single new client, I guess particularly with Connected Living, how do we think about the sort of order of magnitude size of the upfront investment spending versus the later in time ramp up in revenue? And then the breakeven period versus the sort of achieving targeted margin, if you will? Is there a way to break that down for us and give us a decent sense?

Alan B. Colberg
President, CEO & Director

It's hard to generalize, because as we've talked about in Investor Day, and since then, our programs could have anywhere between 1 and 7 products and services. And so the amount of investment will vary based on that. But all of those are priced to, over a period of time, generate a very attractive IRR for our shareholders. So I think we feel good about these new programs that we're launching and ramping. You can see the benefit and the growth in mobile over time that's resulted from the prior programs that we've launched.

John Matthew Nadel
UBS Investment Bank, Research Division

Yes, no question. And I think you mentioned in response to Gary, you talked about a roughly 1-year time frame to the point where you actually start to turn profitable on a new client. Is that about -- is that a reasonable way for us to think about it?

Alan B. Colberg
President, CEO & Director

I think it's fair. I mean I generalize it with some risk to it because every program is different, but it is fair that it takes a period of time. And where the economics really start to flow through as when you get out into year 2 and 3, and the programs begin to get closer to maturity.

John Matthew Nadel
UBS Investment Bank, Research Division

And is it a good example of that right now KDDI?

Alan B. Colberg
President, CEO & Director

Yes. Yes, we launched that originally in late 2017. We're now heading into year 3 of that program.

John Matthew Nadel
UBS Investment Bank, Research Division

All right, terrific. And then, Richard, just a housekeeping item. On a year-to-date basis through the end of September, what's your after-tax loss from the small commercial business? And also, are you on track to effectively non-renew the vast majority of that business by the end of the year? So very little, if any contribution into 2020?

Richard Steven Dziadzio
Executive VP & CFO

Yes. I'll start by the second part. The answer is yes. We're -- as we've talked about before, John, we're kind of unwinding, unplugging that business. So every quarter now, the net earned premium, obviously, what we've written in the past and what's earning out today is decreasing quite substantially. The first -- and to answer the first part of your question that we said in the previous call, first 2 quarters of the year, we were -- we lost about $6 million each quarter. This quarter, the portfolio performed better. Think about a couple of million dollars loss with that in this last quarter. And that represents a little [indiscernible]...

John Matthew Nadel
UBS Investment Bank, Research Division

And do you think fourth quarter would be -- do you think fourth quarter would be more similar to the first half of the year or more similar to the third? Any -- or any sense there?

Richard Steven Dziadzio
Executive VP & CFO

Well, the business is -- the portfolio is getting smaller, right.

John Matthew Nadel
UBS Investment Bank, Research Division

Shrinking, yes.

Richard Steven Dziadzio
Executive VP & CFO

So one would hope that the experience would mimic that. On the other hand, who knows, there's some property, some liability, what we could have some higher losses within that. So to be seen, but we are winding it down and it's winding down very quickly.

John Matthew Nadel
UBS Investment Bank, Research Division

So probably fair to estimate that for the full year '19, somewhere between a $15 million and $20 million, probably closer to the $15 million ex loss contribution, that almost all of that or maybe all of that would not recur in 2020?

Alan B. Colberg
President, CEO & Director

Yes. So John, what I would say is we are winding that business down quickly. We're cautiously optimistic that most of the losses are behind us. I wouldn't give a number for the year. But as I look at 2020, we obviously feel good about that, that this business will largely be behind us. We'll have a benefit in 2020 because this will largely be behind us. We'll have some offset in housing in 2020 from that transition of loans away from the insolvent client. But in terms of the small commercial, hopefully it's largely behind us at this point.

Richard Steven Dziadzio
Executive VP & CFO

Right.

Operator

Your last question comes from the line of Mark Hughes with SunTrust.

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

Yes, the taxes in the Lifestyle business, if I'm looking at this properly, have been improving about 1 point per quarter, 24%, 23%, 22%. What is a good go-forward tax rate for the Global Lifestyle business?

Richard Steven Dziadzio
Executive VP & CFO

It's in that range. I think we've said it's around 22% to 24%, overall. And it really is just reflecting the profitability of our business geographically and the tax rates in those various geographies.

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

Okay. And then the placement rate on the $600,000 loans that you are going to be losing from the insolvent client, could you give some indication of whether those are above average, below average?

Richard Steven Dziadzio
Executive VP & CFO

Well, in terms of the loans, we talked about $600,000. And really, revenues [indiscernible] pegged a placement rate, but really, the revenue is about $70 million in annualized NEP coming out of that business.

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

And then, Alan, you mentioned the 5G wave, and you anticipate that coming in the future. Could you just give us -- as you look at the opportunity for Assurant, how do you kind of frame that up in your mind? And who knows exactly when or the pace of it, but what should it mean for your business?

Alan B. Colberg
President, CEO & Director

Well, if you think about 5G from a consumer point of view, when it ultimately rolls out, it dramatically improves latency, which creates all sorts of new applications, including autonomous vehicles really being driven by that, which is one of the reasons we made the investment in auto. The timing, nobody really knows. But what it will cause is over a period of a couple years, you'll see probably a big spike in handset activity, which would benefit us. So again, I don't think this is in the '20-'21 type time frame. But longer term, we are trying to set up the business to be well positioned for that wave.

All right, thanks. Thanks, everyone, for participating in today's call. We're pleased with our year-to-date performance and believe we're well positioned to meet our financial objectives for the year. We look forward to updating you on our progress on our fourth quarter earnings call in February. In the meantime, please reach out to Suzanne Shepherd and Sean Moshier with any follow-up questions. Thank you.

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