S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

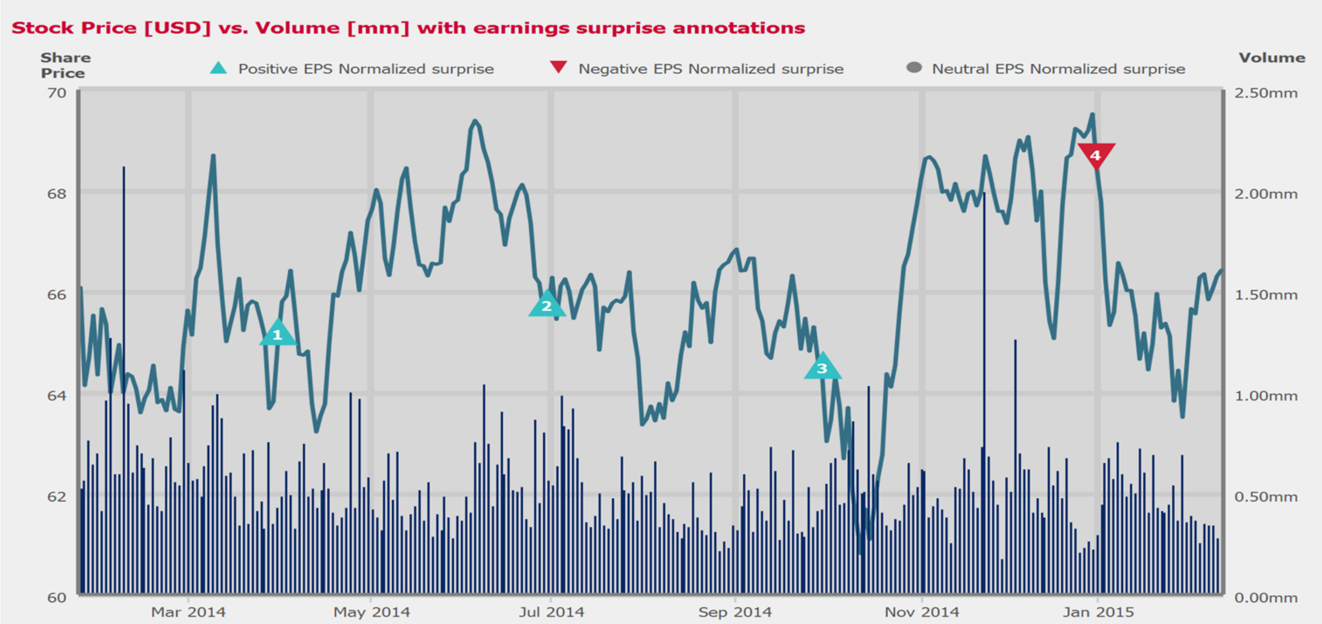
FQ1 2015 Earnings Call Transcripts

Wednesday, May 06, 2015 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.63	0.63	0.00	1.35	4.80	6.51
Revenue (mm)	2524.54	1988.87	(21.22 %)	2576.40	10311.53	10456.48

Currency: USD
Consensus as of May-06-2015 10:33 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	1.55	1.68	8.39 %
FQ2 2014	1.54	1.62	5.19 %
FQ3 2014	1.61	1.82	13.04 %
FQ4 2014	1.66	0.87	(47.59 %)

Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Christopher J. Pagano
Executive VP & Chief Risk Officer

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

ANALYSTS

Colin Wayne Devine
Jefferies LLC, Research Division

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

John Matthew Nadel
Piper Jaffray Companies, Research Division

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

Sean Robert Dargan
Macquarie Research

Seth M. Weiss
BofA Merrill Lynch, Research Division

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

Presentation

Operator

Welcome to Assurant's First Quarter 2015 Earnings Conference Call and Webcast. [Operator Instructions]

It is now my pleasure to turn the floor over to Francesca Luthi, Senior Vice President, Investor Relations, Marketing and Communication. You may begin.

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

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

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

Yesterday afternoon, we issued a news release announcing our first quarter 2015 results. The release and corresponding financial supplement are available at assurant.com. We'll start today's call with brief remarks from Alan and Chris, before moving to Q&A.

Some of the statements on today's call may be forward-looking and actual results may differ materially from those projected in these statements. Additional information on factors that could cause actual results to differ materially from those projected can be found in yesterday's news release, as well as in our SEC reports, including our 2014 Form 10-K.

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

Now, I'll turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Francesca. And good morning, everyone. While our first quarter results at Health were disappointing, we are encouraged by solid performance at our other businesses. The results also reinforced the importance of our strategic realignment going forward.

This morning, I want to highlight the opportunities ahead, and then we'll elaborate on the first quarter. Following a comprehensive review of our businesses, last week, we announced our decision to concentrate on specialty housing and lifestyle protection products and services, provided by our Solutions and Specialty Property segments. We believe this sharper focus will enable us to more consistently generate specialty returns long-term.

Accordingly, we are exploring strategic alternatives for Health and Employee Benefits, including a sale of both businesses. Given their limited strategic fit in our portfolio and the current market environment, we do not believe they can deliver the returns we require. During this process, we will continue to uphold our commitments to customers, policyholders and employees.

Our housing offerings, Specialty Property, protect against risk where people live through lender-placed and flood insurance, multi-family housing and mortgage solutions.

Lifestyle offerings, provided through Solutions, protect what people purchase and use every day, such as their mobile devices, cars, appliances, as well as their assets, which are safeguarded with pre-need funeral insurance.

Specialty Property and Solutions have track records of sustained industry leadership positions and proven financial performance. Importantly, these businesses generally deliver specialty returns, generate significant free cash flow and have the highest profitable growth potential.

Looking ahead, we see a broad array of attractive opportunities in housing and lifestyle and plan to build upon our success in the U.S. and abroad. We will do this by further capitalizing on favorable market trends and identifying unmet consumer needs, where we can leverage our core capabilities such as our advantage distribution networks and strong risk management.

Let me offer a few examples. Mobile continues to transform the consumer experience, and we believe there are many opportunities ahead for Assurant. Our Connected Living platform at Solutions allows us to leverage our strengths to create new offerings, as consumers are increasingly dependent on staying connected to each other, their devices and even their homes. With market-leading positions in housing, mobile and extended service contracts, we are in a strong position to capitalizing on these trends and we are already seeing success.

Additionally, we continue to extend beyond insurance to offer other services related to various consumer risk events. Increasingly, we succeed in the market because of our ability to offer these integrated solutions. Our fee-based offerings now account for nearly 20% of Solutions' and Property's total revenues, and we expect this percentage to grow over time.

Recently, we expanded our agreement with Claro Brazil, one of the largest mobile operators in Latin America, by adding another smartphone manufacturer to the device upgrade program we introduced last quarter. While early, consumer response to this program has been promising and demonstrates our ability to customize solutions for our partners and strengthen these relationships over time.

Our move into the mortgage solutions business is another example. We broadened our array of property preservation and valuation services through a series of acquisitions that are natural extensions of our collateral risk capabilities. Our strong processes, technology platforms and advantage spender networks allow us to provide superior customer service for our clients.

Since establishing mortgage solutions, we've expanded market share with 9 clients that are among the leading mortgage servicers and originators. As a result, we expect the business in total will contribute more than $300 million of fee income this year.

These examples demonstrate the momentum we are gaining in areas targeted for growth. We believe a more tightly-focused Assurant can enhance long-term shareholder value as we continue to execute on our strategy and align resources toward housing and lifestyle.

Now let me offer some highlights from our first quarter results. Overall, our portfolio of specialty businesses, most notably Solutions and Specialty Property, continued to generate strong cash flow in the first quarter, which allowed us to return $100 million to shareholders through buybacks and dividends, and end the quarter with $570 million of holding company capital.

Annualized operating ROE, excluding AOCI, decreased to 3.9%, driven by the loss at Health. Book value, excluding AOCI, was largely unchanged since year-end. Net earned premiums and fees increased 8%. Our housing and lifestyle products accounted for the majority of our revenue and earnings during the first quarter. Fee income overall increased by 42%, primarily due to our expanded service offerings in mobile and mortgage solutions.

We're excited about the future. We believe our sharper focus will create additional opportunities for profitable growth and strengthen our ability to help people protect what matters most, while also allowing us to realize our aspirations of generating top quartile shareholder returns.

Now, Chris will review results for the quarter and our outlook for 2015 in more detail. Chris?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Thanks, Alan. I'll start with Solutions. Segment earnings totaled $54 million, an increase of 10% from the prior year, as we expanded our mobile business. We now provide coverage on more than 28 million mobile devices, up nearly 20% year-over-year.

In the quarter, we also benefited from increased handset repair and logistics activity and favorable domestic loss experience. Results were partially offset by higher integration costs related to our acquisition of CWI Group in France and higher loss experience on a mobile program in Latin America.

Total revenues increased 4%, driven by growth in mobile, our vehicle protection business and in a large domestic service contract client. This was partially offset by foreign exchange pressures and lower production volumes at brick-and-mortar retailers in North America, trends that we expect to persist for the rest of the year.

In addition, as we mentioned on our last call, we will discontinue a tablet program that represents around $100 million of annualized net earned premiums when it transfers to our client's in-house logistics provider. This will lower earnings beginning in the second quarter.

Despite these headwinds, Solutions' overall revenue and earnings this year should remain level with last year. Expansion of our integrated mobile offerings and vehicle service contracts will continue to drive 2015 performance.

Now, let's look at Specialty Property. In the quarter, net operating income was $75 million, a decrease from the prior year, primarily driven by the ongoing normalization of lender-placed. Despite cold winter weather, we incurred lower non-catastrophe losses due to fewer weather and fire-related claims compared to the prior year.

Net earned premiums in the quarter declined by $95 million year-over-year, primarily reflecting the January sale of American Reliable and lower lender-placed premiums.

Placement rates in lender-placed decreased 17 basis points from the first quarter of 2014, but remained flat from year-end, driven by some small loan portfolio additions. Overall, we continue to expect our placement rates to gradually decline as the housing market improves.

Moving to Property's targeted growth areas. We were pleased by the performance of our multi-family housing business, where revenue increased 18% year-over-year. Fee income more than doubled, driven by mortgage solutions, as we increased market share by cross-selling our offerings and adding new clients.

For the quarter, Specialty Property's expense ratio increased by 910 basis points, of which nearly 1/2 was due to our shift toward fee-based products and services. Lower lender-placed premiums also contributed to the increase.

During the quarter, we continued to implement our expense management initiatives. We incurred a modest severance charge related to staff reductions and made additional investments in our lender-placed platform to reduce our cost structure as the business normalizes. These actions are on track to generate net savings beginning in the second half of the year.

Turning to Health. The net operating loss of $84 million was significantly worse than we anticipated. Approximately 1/2 was due to a reduction in our estimated recoveries under the ACA risk mitigation programs for 2014 policies. We refined our accruals to take into account market data available since year-end and additional claims development. This change was reflected in our first quarter results. The balance of the loss was driven by elevated claims on 2015 policies, which were only partially offset by risk mitigation programs.

For the first quarter, we accrued $64 million related to the risk adjustment program for 2015 policies. Recoverables under reinsurance totaled $56 million for the period, and we did not accrue any net recoverables for the risk quarters. While we are eligible to participate in this program, we believe this is a prudent measure, given that funding has not yet been authorized.

To further manage risk, we reduced commissions in January. As a result, individual sales dropped 15% from the prior year despite significant market growth. Despite rate actions taken, initial claims submissions on 2015 policies indicate that loss experience on our ACA in-force block will remain elevated throughout the year. ACA policies now account for 60% of Health's premiums compared to 18% last year. Quarterly results will vary based on loss experience and the estimated recoveries for the risk mitigation programs. We expect insurance carriers will be notified by June 30 of final payment amounts related to the 2014 business, and any changes in current estimates will be recorded in our second quarter results.

The process to explore strategic options for Health is well underway. Absent of sale, we will begin the process to exit the market and will not participate in the 2016 ACA Open Enrollment. We will provide updates as we can. In the meantime, we remain focused on mitigating losses and prudently managing capital as we work through this process.

At Employee Benefits, first quarter earnings declined to $10 million, primarily due to lower real estate joint venture partnership investment income. Disability results were less favorable reflecting lower recoveries and the discount rate change implemented last quarter. Benefits' expense ratio decreased 80 basis points due to premium growth and savings realized from previous expense actions.

We view our enrollment capabilities and broad suite of voluntary products and services, including Dental, to be unique in the market. As we explore strategic alternatives for the segment, we believe these will be viewed as valuable assets for any benefits-focused organization.

Moving to Corporate. We ended March with $320 million of deployable capital. Total segment dividends in the first quarter, net of infusions, were $55 million. We continue to expect 2015 segment dividends to approximate segment operating earnings as capital releases from lender-placed insurance offset capital needs in other product areas. As always, this is subject to rating agency requirements.

During the first quarter, we returned $19 million to shareholders in the form of dividends and we repurchased $82 million worth of stock. In April, we repurchased nearly 670,000 more shares for $41 million. Year-to-date, we retired 3% of total shares outstanding.

We continue to believe the stock is attractively priced. The proceeds from expected transactions will provide additional flexibility to deploy capital prudently through share buybacks, common stock dividends and investments in housing and lifestyle.

The Corporate loss for the quarter declined to $4 million due to a reduction in tax liabilities, which will reverse during the course of the year and lower employee-related benefits expenses. We still expect our full year 2015 Corporate loss to be in the range of $60 million to $65 million. We will assess other opportunities to accelerate expense management efforts as we realign the organization toward housing and lifestyle.

For the balance of the year, our focus remains on repositioning the company for profitable growth and successfully managing potential transactions for Health and Benefits. We believe the actions underway across Assurant will help build a stronger future for the company.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Seth Weiss from Bank of America Merril Lynch.

Seth M. Weiss
BofA Merrill Lynch, Research Division

My first question is just on the philosophy of capital deployment while you're in this disposition stage of these 2 businesses. Could you just, philosophically, walk us through how you're thinking about capital deployment in the next, call it, 4 to 6 quarters while there's uncertainty about how much capital Health may need and, of course, uncertainty about how much you will generate from those businesses?

Alan B. Colberg
President, CEO & Director

Yes, Seth. Let me start. This is Alan. And then, Chris can add a few other comments.

I think we're going to continue the same capital management approach that we've had, which is a disciplined and balanced deployment of capital between returning capital to shareholders and investing in the future of the company. And I think you saw the first quarter is a good example of that. We ended the quarter with essentially the same amount of capital that we started. We have $320 million of deployable capital still on hand. We still expect segment dividends to approximate what we're going to earn in the segments. We returned capital. We still think the stock is attractively priced. And so I think it's business as usual as we go through the next few quarters.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. I think a couple more things to add. Again, we are assessing the intrinsic value of the stock relative to the share price. And we think it's -- share repurchase is a prudent use of capital, so we're going to continue to do that. But we also think that, again, this is combination of returning capital to shareholders and investing in profitable growth opportunities in the housing and lifestyle sectors that's going to create long-term shareholder value. So as Alan said this, we think we have been consistent in the last 5, 6 years with our capital deployment process. It's worked quite well for us, and we see no reason to change it now.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay. And if I could ask a question also on Employee Benefits. You mentioned the value proposition to the market. If we look at Employee Benefits' segment ROEs over the last 2 years or so, they've been in this mid- to upper single-digit level, trailing some of the pure play group provider peers, and trailing was low to mid-teen double-digit ROEs if we go back several years ago. What's been the pressure there in -- aside from low rates, which everyone seems to be dealing with?

Alan B. Colberg
President, CEO & Director

Yes. A couple of thoughts on that, Seth. I mean, I think we feel very good about the Employee Benefits business and franchise. They do have really strong and unique capabilities. And we have been investing heavily over the last many years now, especially the last 3, 4 years to really build out the voluntary business and capabilities in the Dental. We think those are very attractive assets. And for a owner more focused on healthcare and employee benefits, I think this will be a very positive addition to another company. But that's really been the pressure, somewhat investing, somewhat -- we've been in a low interest rate environment as well, which puts pressure on the earnings of that segment.

Operator

Your next question comes from the line of Mark Hughes from SunTrust.

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

In the Specialty housing business, how would you describe the underlying growth? If you take out the lender-placed business, what should we anticipate in terms of organic expansion in coming years?

Alan B. Colberg
President, CEO & Director

So we have several different businesses under Property. In addition to the one you mentioned, we have multi-family housing. You've seen how well we've grown that business. And we continue to have double-digit growth now for multiple years in that business, and we expect to continue to grow. There's a significant opportunity to penetrate that market to further gain share in that market.

We've created a new growth engine for us over the last few years called mortgage solutions. We see very robust growth for us as we leverage our capabilities and our distribution to expand our footprint in that business.

And then finally, in flood, we are one of the market leaders in flood, and we have seen good growth in flood in the last couple of years. So we see pretty strong growth in all the other lines beyond lender-placed.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. The other thing I'd point out just, in particular, on mortgage solutions is that the investment thesis and our thought process around investing in that space was not about growth in market, but growth in market share, leveraging our position as a trusted adviser, expanding product offerings to the existing client base, as well as gaining new clients. And we're seeing that happening already.

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

Would that be -- if you take those discreet businesses, is that double-digit growth within those 3? High single-digit?

Alan B. Colberg
President, CEO & Director

Yes. I think, well, the -- originally, when we acquired those businesses within the mortgage solutions space, it was roughly 300 -- excuse me, $250 million of revenue. We expect $300 million of revenue this year. The other thing we expect is expanding operating margins as we leverage scale. And then, of course, multi-family housing has got double -- smaller but double-digit revenue growth, which, again, meets our investment criteria.

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

Okay, good. And then, the lower production on the bricks-and-mortar, could you give us a sense of the magnitude on that? Has that trend changed over the last quarter? What's driving it? Is it a macro issue? Is it company-specific?

Alan B. Colberg
President, CEO & Director

Yes. What we've seen in retail for quite a few years now has been a gradual decline in the bricks-and-mortar distribution being more than offset by growth in other channels, whether that's through other forms of retail like digital or through OEMs. It's really a macro trend that we've been expecting and we've been investing against over the last many years.

And as you heard Chris say, or I think we say in the outlook, our view is Solutions is still going to be consistent with last year despite the various trends going on.

Operator

Your next question comes from the line of Jimmy Bhullar of JP Morgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

So I had a couple of questions, first on the Health business. I think there's around $440 million of capital in that business. So assuming that you are not able to sell the Health division, then how much of the capital do you expect to be absorbed as you're winding the business down? And would you expect some of the capital to be freed?

And then secondly, on the Employee Benefits sale, assuming that you are able to sell it at some point over the next year, do you expect to use a majority of the proceeds for buybacks? And how fast would you buyback, if that's case? Or would you be more balanced and wait for potential deals and not speed up buybacks immediately after the deal, just trying to assess potential dilution from the sales -- sale of the Employee Benefits business and the wind down of the Health business?

Alan B. Colberg
President, CEO & Director

Yes, sure. Jimmy, let me start, and then, Chris, you can add on this one. I'll start by the future for Assurant, which we're very excited about. The businesses that we have in housing and lifestyle generate very good returns. There is a leadership position, strong growth potential, both organic and, again, additional very selective acquisitions. So I'll start with we're very excited by the future.

For Health and then for Employee Benefits, we're really running 2 different processes. So with Health, as we said very clearly, we are attempting to sell the business. And after the sale, we will move to exit that business. Employee Benefits, we are highly confident in a sale for that business. We believe that there are many attractive capabilities that buyers will value.

So we have robust, thorough processes running for both. It is too early to really speculate on what might come out of those processes. What I would say though is go back to where we started in the Q&A, we have a disciplined capital management strategy which we've been following for years. We're going to continue to follow.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. And maybe just some couple specifics on Health, in particular. Absent a sale, we will not be open for 2016 Open Enrollment. So what we do expect is to be substantially out of the Health business by the end of 2016. So while we -- and, well, for 2015 and through that process, we'll appropriately capitalize the business, but then expect by the end of 2016 to have gotten significant, if not all, all of the capital out.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And then, do you have an idea or could you give us some numbers on how much corporate overhead is allocated to Health that -- and to Employee Benefits that would still stay with the company, at least initially, and would need to be allocated to other businesses?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Well, again, it's early in the process. But as we go through the sale process of Health and Benefits, we are reassessing the corporate infrastructure and the -- our operating efficiencies and we'll address the issue of stranded cost during that time.

Operator

Your next question comes from the line of John Nadel from Piper Jaffray.

John Matthew Nadel
Piper Jaffray Companies, Research Division

I guess, a couple of questions and 2 quick ones. I'll start 2 quick ones on the lender-placed business. First, as far as premium rate reductions go, can you just give us a sense for how much of those expected reductions, the ones that have already been approved state-by-state, how of much of those are already now in the premium numbers as of first quarter? And how much more would you estimate is left to roll into the numbers as we move through the remainder of this year?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So I think in terms of what's already in the numbers, I think you're looking at roughly a 7% rate reduction that's reflected. There's always ongoing rate reviews on an annual basis, ongoing dialogue with the states, which may affect rate reductions going forward. Keep in mind, we're also making some changes around the infrastructure, operational efficiencies in response to the normalization of lender-placed.

So again, lots of moving parts there. But I think roughly 7% of, call it, virtually all of the rate reductions from last year are now in the numbers.

John Matthew Nadel
Piper Jaffray Companies, Research Division

And the total you had expected would roll through -- again, understanding that state-by-state, these things can change, but the total that you would expect it, I think, was 8% to 9% or something along those lines here or pretty close, right?

Christopher J. Pagano
Executive VP & Chief Risk Officer

That's right. Full year 2015, 8% to 9%.

John Matthew Nadel
Piper Jaffray Companies, Research Division

And then, as I think about the comment, I believe you made it, Chris, about the 900 or 9 percentage points increase year-over-year in the expense ratio, about 1/2 of that just being the growth of the fee-based businesses and 1/2 of that being the reduction in lender-placed premiums and, I guess, negative operating leverage there. How much of that piece of it, once the expense initiatives are completed, do you think you can recover?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So a couple of things. Again, the increased in the -- increased higher expense ratio associated to fee business, it's important to remember that there is no loss ratio associated with that business. So again, important distinction there.

We do think sort of the insurance expense ratio is going to be in the mid-40s percentage on a long -- over the long-term. Combined, it's sort of 85% to 90%, I think is sort of the longer-term projection we've got there. A lot of that is going to be dependent upon our ability to standardize and create greater efficiences around the lender-placed infrastructure, which we are -- now, net investors, the first half of the year, we expect to be net savers in the second half and in the out years. So we'll keep pace with the normalization of lender-placed. I mean, at the end, we think we're still going to have a 20% ROE business, which is -- it definitely meets our definition of Specialty.

John Matthew Nadel

Piper Jaffray Companies, Research Division

Yes, understood. And then also, one last one related to lender-placed, and then I have one on Solutions. You mentioned a couple of smaller loan portfolios that came on board that maybe is masking the placement rate underlying falling. Can you give us a sense for how much? Can you do that math? Do have the data to be able to do the math on how much the placement rate would have fallen have you not had a few portfolios come on board?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Just qualitatively, John, they're kind of -- they're small owned portfolios with high placement rate. I think the challenge on quarter-over-quarter placement rate and premium linkage is always a challenge. I think the longer-term, 17-basis point decline year-over-year is a better indication. And again, this trend towards 1.8% to 2.1% over the long-term is really -- we still see that trend in place.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Okay. And then last one for you, just thinking about in the international piece of Solutions. If I look at the last couple of quarters, obviously, particularly weak combined ratios, even the trailing 12 months, the combined ratio is 102%, maybe 102.5%, something along those lines. I know from years ago, the target was to ultimately get this business down to the mid-90s. What is going wrong there? And I guess, Alan, how long should we expect it to take for this particular piece of Solutions to get to its targeted ROE? Because it seems like that's the piece of Solutions that's preventing the overall segment from hitting its target.

Alan B. Colberg
President, CEO & Director

Yes. I think we feel like there's been good progress in international. We see lots of opportunities to continue to expand our offerings there and become more integrated around the risk event and be more than just insurance.

As Chris was talking about, we do have some noise sometimes in the short-term and we had a couple of one-timers around integration cost in the quarter that affect the quarter. But we still feel like there's good progress, and we're moving forward to where the returns that we expect in international.

John Matthew Nadel
Piper Jaffray Companies, Research Division

And just -- as we think about the -- you have some intangible amortization, obviously, running through this too.

Alan B. Colberg
President, CEO & Director

Yes, yes.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Over the next couple of years, how much should just the wind down, assuming no incremental acquisitions which, I guess, is probably a bad assumption, but assuming based on what you have today, how much should just the wind down of intangible amortization help that ratio?

Alan B. Colberg
President, CEO & Director

So I don't have the breakdown, international versus domestic. I can tell you, in general, the acquisitions we've done in '13 and '14 in Specialty Property and Solutions, it's roughly $40 million to $45 million of intangible amortization on a pretax basis. And again, you're right to point that out because what we're focused on is cash, and that's going to be a noncash drag on operating income. But it doesn't affect how we think about the business and how we -- the investment thesis and how we value the acquisitions initially.

Operator

Your next question comes from the line of Sean Dargan from Macquarie.

Sean Robert Dargan
Macquarie Research

I have a question about how to think of your thought process as you either sell or exit these businesses and deploy the capital that's freed up. Is your motivation, is your driving force going to be to make up for those GAAP earnings that were lost? Or do you want to show EPS growth? Or is your focus on increased cash flow generation? I'm just wondering how to think of the company and how you're thinking of the puts and takes of share repurchase versus M&A.

Alan B. Colberg
President, CEO & Director

Yes. So let me start broadly on that and then answer specifically. I mean, the intent of refocusing the company around housing and lifestyle is to create a more attractive company for our shareholders. That comes from a few different points. One is we have a proven track record in those areas of generating specialty returns long-term. Virtually every business that is part of the future of Assurant were a market leader, and that's something we can build off of. Almost every one of those businesses, we're doing more than just insurance. We have integrated offerings around the risk event which allow us to have better duration with partners, better economics for us.

In general, these are less capital-intensive businesses. And so what we are really are focused on is free cash flow generation. That gives us the power to create value for our shareholders through the capital deployment. And as we looked across our portfolio, by far the highest profitable growth potential we have is in these areas of housing and lifestyle, really leveraging the consumer trends, the market trends, et cetera.

And one of the things that we're going to do later this year, as we refocus on the future of Assurant and we get the Health and Benefits transitions behind us, we will put out new metrics and new disclosures. And we'll hold an Investor Day late this year to really help everyone understand how to think about Assurant going forward. But we're very excited about the opportunities ahead. And we think we're going to generate more cash flow in the future, not less.

Operator

Your next question comes from the line of Steven Schwartz from Raymond James.

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

A couple. Just to follow-up on John's question, vis-a-vis LatAm. I think, Alan, you referenced -- or maybe it was Chris, I don't remember, referenced an account in Latin America that performed poorly during the quarter. My sense was that, that was on the loss side, but then you referenced integration cost. So I was just wondering about the story on that account.

Christopher J. Pagano
Executive VP & Chief Risk Officer

So yes. So there are a couple of things. So the mobile client in Latin America, there were some issues with a higher replacement -- repair and replacement cost, product availability. This happens from time to time. One of the benefits of having partnerships is that we are able to make adjustments to pricing terms and conditions in conjunction with our partner and return to profitability, which we expect to target profitability -- excuse me, which we expect to happen over the next 1 or 2 quarters.

The onetime integration costs are related to the acquisition of the CWI Group, so that's Europe. Again, mobile, but Europe, so -- which is a onetime, not repeat. So you'll see the combination of the one-timer and then the return to target profitability in the Latin American mobile client will help improve the combined ratio.

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

Has pricing already -- has new pricing already been worked out with the client in Latin America?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. All of the changes in terms of terms and conditions and pricing have all been finalized. Correct.

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

Okay, great. Okay. And then moving on to Health, just a quick couple. In the quarter's results -- the quarter, obviously, negatively affected by what I would call negative prior year development of your government repayment assumptions, I guess. But still that -- absent that, I was wondering if there was some type maybe of a premium deficiency reserve or something like that? I guess, what I'm trying to get at is whether you reserve to try to get that income down to 0, the losses down to 0? Or should we still be thinking about losses running much higher than previously?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So the loss reflects estimates -- changes in estimates around 2014 risk mitigation programs, and then also estimates around the 2015 program.

Again, very early in the process with respect to 2015. In particular, as you think about the risk adjustment mechanism, we do -- we have some information about our own block, but have no information on the market yet. And then, we expect to be told in mid -- at the end of June, what the actual recoverable risk -- reinsurance recoverable and risk adjustment amounts will be from our 2014 block.

So it's still very early in the phase for 2015 and we still -- we'll know by the end of the second quarter, hopefully, what the 2014 actuals will be.

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

Okay. One follow-up on that, just so I understand this. So the risk adjustment benefits that you accrued in this quarter, if everything goes according to your thoughts, okay, like an assumption, but if everything goes according to your thoughts, is there no more of these accruals to be expected? Is that how that works?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So there are 2 blocks of accruals. The first of the accruals is around the '14 policies. Those are...

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

Forget those. I'm just talking about '15.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Okay. So '15, so we -- for the risk adjustment mechanism, we accrued $64 million. And we will continue to accrue throughout the course of '15. And then, as we sit here, a year from now, we'll be waiting for final amounts around the '15 policies for -- in mid-June of '16.

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

I guess, what I'm asking is, is it accrue as you go as premiums are earned? Or do you accrue upfront and then change over...

Christopher J. Pagano
Executive VP & Chief Risk Officer

No. The -- these quarterly estimates will be accrued as we incur claims.

Alan B. Colberg
President, CEO & Director

The other important point I'd make is there are really 3 programs now that we are eligible for because of having sold on exchanges for the last Open Enrollment. We're eligible for the risk corridor program as well. We took a prudent approach there which is we did not book a net recoverable on the risk corridor.

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

Right, that hasn't been funded yet. Okay. And then, one more just on Health. The $300 million, or call it, $400 million of GAAP equity that you report on Page 4 of the supplement, does that roughly approximate statutory equity -- statutory capital?

Christopher J. Pagano
Executive VP & Chief Risk Officer

No. The GAAP equity is slightly higher. I think if you look at the year-end numbers, we had $440 million of GAAP equity. And I believe stat capital was right around $400 million.

Operator

Your next question comes from the line of Colin Devine from Jefferies.

Colin Wayne Devine
Jefferies LLC, Research Division

Two questions. With respect to Health and Employee Benefits, are you also exploring an option of selling them as a package?

Alan B. Colberg
President, CEO & Director

No, we're not. We're running separate processes. The processes are very robust and very thorough. But we fundamentally believe the buyer universe is very different for those 2 businesses, and so they are completely separate. We also think that approach maximizes value for our shareholders. And one of the reasons why we announced this when we did was to ensure the widest possible participation in the sale of both of those businesses. But they're completely separate processes.

Colin Wayne Devine
Jefferies LLC, Research Division

Okay. And then second, I didn't catch it in your comments, but I was wondering if you could just give us an update on really how CWI is proceeding according to our expectations, as well as eMortgage Logic? If I remember on the latter, I think you were expecting about $250 million potential fee income this year. And how are we doing -- leaning towards that?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So on eMortgage Logic, so again that's part of the broader mortgage solutions initiative. We -- the combined revenue of the acquisitions at the point of time was roughly $250 million.

We expect about $300 million this year. We do expect also some margin expansion. We are seeing some -- we're having success cross-selling, leveraging our distribution as a trusted adviser and selling products on the appraisal and property preservation and broker price opinion side into the same clients. So we really executing right according to plan there.

CWI, we're still in the midst of integration, again, with the LSG team is driving that. We do think that that's going according to plan and will give us a nice footprint in Europe around global mobile.

Colin Wayne Devine
Jefferies LLC, Research Division

Okay. And then, following up. You highlighted in the press release that [indiscernible] from Solutions and from Specialty Property were up 3%, taking out American Reliable. But if we also back out the acquisitions to really get at the same-store basis, how are the businesses you -- what you've got this year doing compared to last year in terms of premiums?

Alan B. Colberg
President, CEO & Director

I don't have that in front of us. What we've been focused on is we do have strong organic growth in many parts of Solutions and Property. And the fee income, a lot of that in mobile is organic. But I don't have that in front of me.

We do feel good though about the future growth potential of the companies and the businesses that are part of the Assurant of tomorrow.

Operator

Your last question comes from the line of Jon Nadel from Piper Jaffray.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Two quick ones. So we've -- I guess, we've sort of danced around a little bit in international Solutions, the loss in LatAm and the integration costs. I mean, would you at least give us a sense for the combination of what those 2 factors together cost the business, either in combined ratio points or dollars or something along those lines?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So I think in terms of the one-timers, you're talking about mid-single-digit millions pretax, and then probably $2 million to $3 million pretax in terms of the client replacement cost and re-contracting in mobile in LatAm.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Perfect, that's helpful. And then, the second question is just you've got these processes ongoing now around the potential sale of these 2 businesses. Is it fair for us -- I assume it's fair for us to think about you operating your capital management program under a sort of automated program at 10b-5 or whatever it's called, such that as you become aware of critical information, material information around these deals, you're still able to be in the market buying back your stock. Is that fair?

Christopher J. Pagano
Executive VP & Chief Risk Officer

So the way we go about share repurchase is 10b5-1. And the activity in April was all during a blackout and all part of the 10b5-1 program.

So continued, again, we think the stock is attractive. We want to be in the market consistently and have ample financial flexibility to do that.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Okay. And Alan, appreciate your commentary about an Investor Day and maybe some -- an additional disclosure in metrics around the 2 key businesses going forward. I think that would be very helpful.

Alan B. Colberg
President, CEO & Director

Certainly.

Well, thank you, everyone, for participating in today's call. We look forward to updating you on our progress throughout the year. As always, you can reach out to our Investor Relations team with any follow-up questions. Thanks.

Operator
This concludes today's conference call. You may now disconnect.