S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

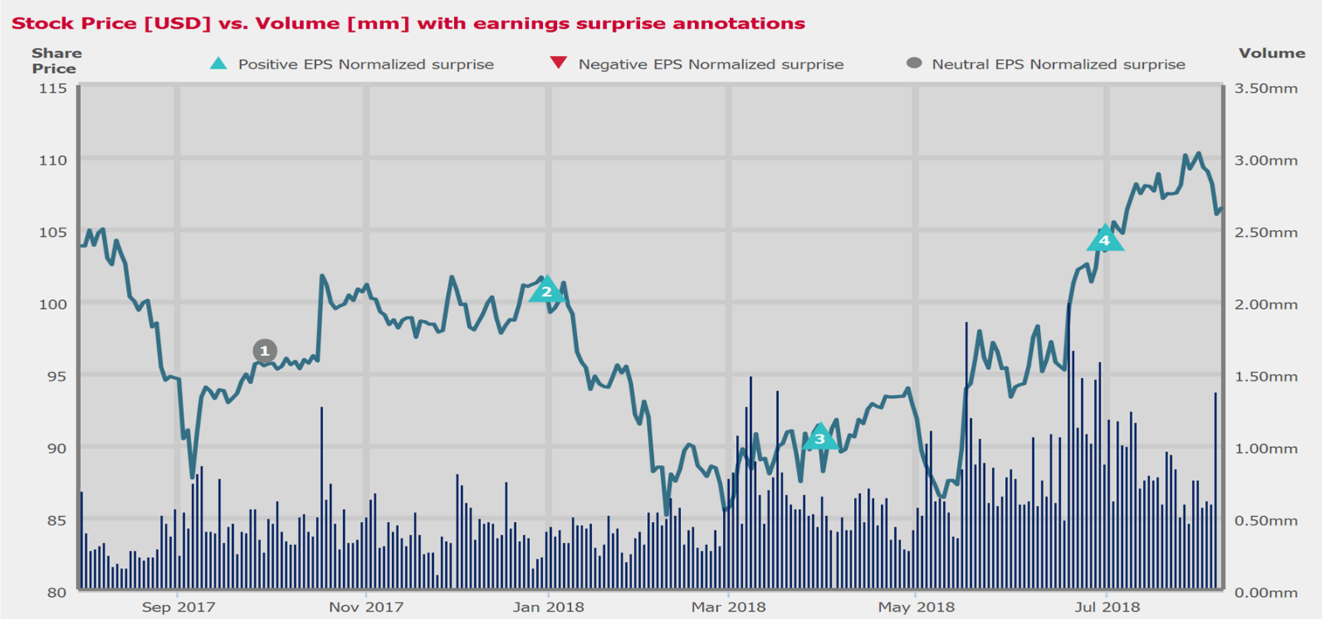
FQ3 2018 Earnings Call Transcripts

Wednesday, November 07, 2018 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2018-			-FQ4 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.01	1.06	▲4.95	1.15	6.08	8.57
Revenue (mm)	2046.55	2270.30	▲10.93	2207.94	7720.74	9151.39

Currency: USD
Consensus as of Nov-07-2018 8:30 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2017	(1.79)	(1.40)	NM
FQ4 2017	1.57	1.84	▲1 17.20 %
FQ1 2018	1.89	2.00	▲2 5.82 %
FQ2 2018	1.75	2.13	▲3 21.71 %

Table of Contents

Call Participants

EXECUTIVES

Alan B. Colberg
President, CEO & Director

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Suzanne Shepherd
Vice President of Investor Relations

ANALYSTS

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

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

John Matthew Nadel
UBS Investment Bank, Research Division

Kai Pan
Morgan Stanley, Research Division

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

Presentation

Operator

Welcome to Assurant's Third Quarter 2018 Earnings Conference Call and Webcast. [Operator Instructions] It is now my pleasure to turn the floor over to Suzanne Shepherd, Vice President of Investor Relations. You may begin.

Suzanne Shepherd
Vice President of Investor Relations

Thank you, Christina, and good morning, everyone. We look forward to discussing our third quarter 2018 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 and Treasurer.

Yesterday, after the market closed, we issued a news release announcing our results for the third quarter 2018. 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.

As a reminder, on May 31, we closed the acquisition of The Warranty Group or TWG. Beginning June 1, net operating income and net operating income per diluted share include TWG results, the $1.2 billion of acquisition financing obtained this past March and related costs.

Dividends on the preferred stock issued as part of the deal financing are an ongoing expense reflected in net operating income. In addition, starting August 1, the mortgage solutions business is no longer included in operating results, given the sale.

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 other non-GAAP financial measures, which we believe are important in evaluating the company's performance. For more details on these non-GAAP measures, the most comparable GAAP measures and a reconciliation of the 2, please refer to yesterday's news release and financial supplement available on assurant.com.

I will now turn the call over to Alan.

Alan B. Colberg
President, CEO & Director

Thanks, Suzanne. Good morning, everyone. Overall, the third quarter was in line with our expectations. This marks the first full quarter since closing our acquisition of The Warranty Group. We are pleased with performance thus far, and we are starting to jointly develop new offerings to capitalize on our leading position in the global automotive market.

We remain focused on completing our global integration and are on track to deliver on our commitment of 600 million -- $60 million, apologies, of run-rate operating synergies by the end of next year. Results for the quarter also included solid organic growth across Connected Living, pre-need and multifamily housing. We believe this momentum will help sustain profitable growth.

As we've preannounced, we incurred more than $50 million of after-tax losses related to Hurricane Florence, well within the retention limit of our reinsurance program. I want to thank all of our employees who supported our policyholders in their time of need.

Let me now share some recent highlights for our 3 business segments. They underscore our ongoing success, building strong partnerships with leading brands, our focus on innovation and customer excellence.

Starting with Global Lifestyle. This segment posted solid earnings for the quarter, particularly in mobile, where new subscriber growth more than offset higher loss experience and lower trade and volumes. Mobile revenue increased 12% as global protection programs launched last year continued to gain momentum.

In total, we now protect more than 44 million devices worldwide, and we continue to gain traction in the mobile marketplace. Most recently, in September, we worked with Apple to launch AppleCare+ with theft and loss. This represents Apple's newest and most comprehensive option in its family of device protection plans, available in their stores, online and select resellers like Best Buy.

The offering provides coverage for hardware service, accidental damage, theft and loss as well as software and technical support, something we believe continues to be a growing need for consumers. This comes on the heels of several other device programs we've helped launch globally in the last 2 years to enable our carrier and cable partners to offer access to AppleCare services. While still very early, the performance has been tracking our expectations.

Also on the 1-year anniversary of our partnership with KDDI, we expanded our relationship by introducing an enhanced mobile device support program for all of their Apple customers in Japan. This includes 4 years of coverage for mechanical breakdown, accidental damage and loss and theft. We are encouraged by the success with KDDI and look forward to finding new and unique ways to serve them and their end consumers.

Our Global Automotive business also continues to generate strong top line growth with more than 47 million protected vehicles worldwide. As the industry evolves, we're making targeted investments to expand our connected car capabilities.

During the quarter, we made a strategic investment in Mojio, a leading technology platform and software service provider for connected cars, as we explore digital protection and support solutions for vehicle owners and automotive partners.

We are finding ways to enhance our vehicle protection offerings with real-time telematics data and remote diagnostic information. This is in addition to connecting vehicle owners and their cars with numerous on-demand services.

Overall, we see opportunities to continue to scale our businesses and introduce innovative offerings around the increasingly connective lifestyle of consumers.

Turning to Global Housing, the segment generated solid results, excluding catastrophe losses. We continue to evolve and strengthen our specialty property offerings where we have leadership positions and differentiated capabilities.

Our lender-placed insurance franchise remains strong and generates substantial cash flow. We recently renewed 2 significant clients with multiyear agreements and continue to make progress with our operating system migration.

As we close out 2018, we believe [lender-placed] earnings will stabilize next year after several years of market declines.

In multifamily housing, we continue to generate strong growth, with a nearly 11% increase in revenue this quarter, and we now protect 2 million renters across the U.S. During the quarter, we became the exclusive provider of renters insurance to Village Green, one of the nation's premier property management companies, providing our suite of renters products and services through their more than 25,000 rental units in the U.S.

Over the last several years, we have steadily built out our capabilities and offerings in the sharing economy space. We are focused on 3 key areas, on-demand mobility insurance, mainly in auto peer-to-peer and car-fleet sharing, shared accommodations, primarily in the vacation rental market and shipping insurance.

We now work with around 30 clients, including some of the most sought-after brand names in the sharing economy market like Etsy, GM's car sharing program, Maven, and Flexdrive.

While not yet a significant driver of revenue or earnings, we believe this is an area of growth potential where we have developed a recognized brand due to our innovative and adaptive approach. Overall, we believe these specialty offerings will help support profitable growth for Global Housing in the years ahead.

And finally, Global Preneed. This segment posted record earnings, driven by recent growth in sales and total assets under management. Our specialty products and the alignment with SCI in North America and other market leaders in Canada are key differentiators.

We have recently expanded our offerings to include ancillary products, such as support and assistance to will executors and those navigating the estate planning process. Overall, Preneed continues to produce strong returns and robust cash flows.

Turning to our consolidated financial results, we currently measure our success against 3 key metrics: net operating income, net operating income per diluted share and operating return on equity, all excluding catastrophe losses.

Beginning in June, these metrics include results for TWG and related acquisition financing. For the first 9 months of 2018, Assurant's net operating income increased by $58 million or 19% year-over-year to $371 million, driven by contributions from TWG, a lower effective tax rate and organic growth.

Operating earnings per diluted share was $6.37, up 13%. Annualized operating return on equity, excluding AOCI, was 11%, up 60 basis points since year-end, mainly due to growth in earnings.

At the end of September, holding company capital totaled $473 million after returning $119 million in share repurchases and common dividends in the quarter. We also recently announced a new $600 million share repurchase authorization. This brings our total available authorization to $776 million as of November 2.

As always, our buybacks are subject to market conditions and other factors. We are committed to managing our capital prudently, maintaining balance sheet strength and sustaining our track record of investing in the business to support long-term profitable growth, all of this while returning excess capital to shareholders over time.

As we approach the end of 2018, we continue to expect Assurant net operating earnings, excluding reportable catastrophes, to increase 20% to 25% from last year.

As we look ahead to 2019, we remain focused on continuing to grow earnings and cash flow. To do so, we are fostering even greater collaboration across our lines of business to leverage our newly expanded global scale and expertise. This will be especially important as our lifestyle and housing markets converge around the connected consumer.

We see opportunities to drive greater efficiency and effectiveness across our global operations through simplification, standardization and deployment of technologies, such as artificial intelligence. And technology investments we've made this year will support an even better customer experience across channels globally.

I'll now turn the call over to Richard to review our third quarter 2018 results and outlook in greater detail. Richard?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Thank you, Alan, and good morning, everyone. Let's start with Global Housing where net operating income totaled $19 million for the third quarter compared to a net loss of $110 million in the same period of 2017.

The increase was primarily due to $120 million of lower [tax] . Third quarter included $67 million of losses related to wind and flood damage from Hurricane Florence and an increase in reserves for claims from Hurricane Maria.

As a reminder, we incurred a total of $187 million in cat losses in the third quarter of last year. Excluding catastrophe losses and the tax rate change, net operating income declined by $8 million year-over-year, driven by less favorable noncatastrophe loss experience and expected declines in lender-placed. We also incurred additional technology expenses as we reinvested a portion of our tax savings with additional investments planned for the fourth quarter.

Growth from our affinity partners in property management companies and multifamily housing and more favorable noncat loss experience from other specialty products like international dwelling partially offset the decline. The risk-based combined ratio for our lender-placed and manufactured housing businesses, excluding cat losses, increased to 83.2% from 80.7% in the prior year period. This was mainly due to less favorable noncat loss experience from other weather-related claims and water damage in lender-placed insurance, a trend we expect to continue through year-end.

We also incurred higher expenses in the quarter to support new business. With the sale of mortgage solutions and the expansion of other specialty property offerings, we are reevaluating Global Housing's profitability metrics for our capital-light businesses. We expect to share our conclusions with you, along with relevant segment targets at our upcoming Investor Day in March.

Moving to revenue. Total Global Housing net earned premiums and fees were down slightly in the third quarter, reflecting the sale of mortgage solutions on August 1. Excluding mortgage solutions, revenue was up 9%, driven by growth in our commercial property products and multifamily housing.

Revenue also increased from the absence of catastrophe reinstatement premiums, which were paid in the prior year period. This increase was partially offset by a reduction in lender-placed premiums, mainly from lower real estate-owned volumes and declining placement rates.

The placement rate for lender-placed dropped 15 basis points year-over-year or 3 basis points from the second quarter, in line with our expectations. This reduction reflects the overall strength of the housing market and a higher mix of low placement loans. We expect placement rate declines to continue to moderate.

As we preannounced, fourth quarter results will include claims from Hurricane Michael. We continue to process claims, and based on our view today, we believe losses will likely be in the range of $75 million to $105 million pretax. This is below our cat reinsurance prevent retention of $120 million.

Excluding catastrophe losses, we expect Global Housing net operating income for this year to increase, driven by the benefit of a lower U.S. tax rate. While earnings will be lower absent tax, we are encouraged by the progress we've made to refocus our housing portfolio and moderate lender-placed declines. In addition, we expect to continue to grow revenue and earnings in multifamily housing and other specialty offerings over the long term.

Moving to Global Lifestyle, the segment earnings increased to $76 million for the third quarter. This included $29.9 million from acquisition of The Warranty Group, net of $2.5 million primarily related to intangible amortization.

This also includes $5 million in realized operating synergies in the quarter. We also saw organic -- solid organic growth in Connected Living, mainly from new mobile programs launched in 2017 and ongoing expense management efforts within our extended service contract business.

The effective tax rate was not a driver in the quarter because the net benefit from tax reform was nearly matched by a onetime gain in 2017. Lifestyle growth was partially offset by continued declines in Financial Services, driven by discontinued partnerships as we repositioned our offerings within the banking sector.

Turning to revenue. Net earned premiums and fees were up $700 million year-over-year, primarily due to the 200 -- to the $626 million contribution from TWG.

We saw continued growth in the North American auto business predominantly through the national dealer distribution channel. Organic growth within Global Lifestyle was driven by higher service contract volumes from our third-party distribution channel within global auto and strong subscriber growth from mobile programs, which started in 2017. Lower mobile trade-in volumes and a depreciation of the Argentine peso partially offset this increase.

Turning to the segment's profitability metrics, the combined ratio for the risk-based businesses improved to 97.2% from 99.2% due to catastrophe loss experience and the favorable impact from the TWG acquisition. As a reminder, in the third quarter 2017, we incurred losses mainly in our auto business of $7.7 million related to Hurricane Harvey compared to $1.4 million of claims this quarter related to Hurricane Florence.

The pretax margin for fee-based, capital-light businesses was 5.3% in the third quarter or 6.5%, excluding TWG earnings. This compares to 3.8% in the prior year period. Overall, the improvement was driven by higher profit from global mobile programs started in 2017 and realized expense savings in the extended service contract business. Less favorable U.S. loss experience and lower contributions from Europe partially offset fee increase.

As noted last quarter, the Connected Living margins reflect the inclusion of the TWG business, mainly more service contracts offerings with lower margins.

Overall, for full year 2018, we expect continued organic growth in Global Lifestyle, driven by mobile in Global Automotive.

Global Lifestyle earnings growth this year will reflect the TWG acquisition and organic growth, along with the benefit of the lower effective U.S. tax rate. Organic growth should be mainly driven by mobile, partially offset by declines in Financial Services.

Now let's move to Global Preneed. The segment reported $17 million in net operating income. This was an increase of $4.5 million year-over-year. Results included a $2 million benefit from the lower U.S. tax rate, net of some reinvestments in the business. Excluding the tax benefit, earnings were up from greater investment income due to both higher invested assets and interest rates as well as growth in the business.

Revenue in Preneed was up 8% for the quarter, growth was driven by [prior period] sales of prefunded funerals and the Final Need product across U.S. and Canada. Base sales increased for the second consecutive quarter from expansion of our Final Need product with new distribution partners.

To a lesser degree, results benefited from greater volume of prefunded funeral offerings in Canada and the U.S. As a reminder, last year's sales were adversely impacted by the significant hurricane activity in the quarter. We are pleased with Preneed's strong results but expect to see earnings moderate in the fourth quarter, given seasonality and higher mortality as we near the winter months.

For the full year, we still expect Preneed earnings will increase modestly with the impact of tax. Business from new and existing clients and adjacent product offerings should drive this expansion.

At Corporate, the net operating loss was $19 million, a year-over-year increase of $6 million. Approximately half of the increase was due to higher employee-related expenses as well as some additional technology investments. The other half was related to an adverse impact from the lower effective tax rate.

For the fourth quarter, we expect the Corporate loss to increase from third quarter levels, similar to historic trends. Continued investments in artificial intelligence, the connected home and the connected car should also be drivers. As a result, we believe the Corporate operating loss will be in the range of $80 million to $85 million for the full year, as previously discussed. This includes the adverse impact of lower U.S. tax rate at roughly 20% with some reinvestment. This will be partially offset by continued expense management.

Turning to capital. We ended September with $473 million in total holding company capital or about $223 million of deployable capital. Dividends from Global Housing, Lifestyle and Preneed totaled $139 million, and this included $75 million from the TWG entities. We also received $35 million for the August 1 sale of mortgage solutions.

Looking at outflows, we deployed $83 million in share buybacks and $40 million in dividends. This is comprised of $35 million for our common stock and $5 million for our preferreds.

In the fourth quarter through November 2, we have purchased 333,000 shares for approximately $34 million. For the full year 2018, we expect dividends from our operating segments to be greater than segment operating earnings. This is mainly due to excess dividend capacity following the reduction of our deferred tax liability and full year dividends from TWG.

Excluding the deferred tax liability and dividends from TWG, Assurant dividends are still expected to be in line with their segment earnings, inclusive of catastrophe losses. As always, our dividend outlook is subject to customary regulatory capital requirements, rating agency considerations and the profitable growth of the businesses.

In summary, we're pleased with our performance this quarter, and we remain focused on delivering on our full year commitments. A strong finish will position us well for continued profitable growth in 2019.
And with that, operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is coming from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

So my first question is on your homeowners business. If you look at past 3 years, your cat losses have been -- you have 3 consecutive years of cat losses above your long-term average. I just wondered, can you reflect on the volatility versus your expectation, your reinsurance program. And would you consider down the road, separating out this business because that results have been masking the progress you're making on the warranty business.

Alan B. Colberg
President, CEO & Director

Yes. No, Kai, so a few thoughts on this. So first of all, I think we feel very good about the reinsurance program we have in place. You saw last year, which was a very extreme weather year, that the program worked well. We were not really that affected [by the] company other than the losses we took. And so we feel like we've done a good job of protecting our customers, our policyholders, our shareholders with the program. Over the years, we've been gradually reducing our retention so that our exposure has gone down significantly. And as we've added other lines of business, like The Warranty Group and with the growth in Connected Living and mobile, a much smaller portion of our earnings is cat-exposed today. But certainly, the last few years have been more volatile more storms than in the past, and we will be revisiting our reinsurance program, what's the right retention point, as we go into the repurchase cycle for that in January.

Kai Pan
Morgan Stanley, Research Division

So do you think this is still a core business for you to keep in the foreseeable future?

Alan B. Colberg
President, CEO & Director

Yes, absolutely. If you look at Global Housing, we've gone through a few years of market declines in lender-placed, which are now largely behind us. We are positioned, as we've said, for flat earnings in lender-placed next year, excluding cat, which is very positive. And we've got strong growth across the balance of Global Housing. So we feel very good about that business as we look to 2019 and beyond.

Kai Pan
Morgan Stanley, Research Division

Okay. Great. My second question on the lifestyle margin, 5.3% this quarter. This improvement is from last year's results, but you highlighted that The Warranty Group probably dragged the margin by 1.2 points. And you also highlighted some less favorable loss experience in mobile and Europe. Could you quantify the sort of like the margin impact from those -- like on your core business outside The Warranty Group?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Kai, it's Richard. And I think you phrased it correctly. I mean, we -- overall, it's an improvement from last year, 3.8%. So positive news there. But we do know -- we have noted in the past that when we bring the TWG business in, the margins were a little bit lower. So that does bring it down relative to what it had been, as you mentioned. It ultimately ends up being a business mix we have. And then also, as we called out, there was some impact from Europe and some losses but fairly small overall in the mix.

Alan B. Colberg
President, CEO & Director

Yes. And Kai, I would add. I think over the last few years, we've been very pleased with the margin growth that we've seen in Lifestyle. We did allude to in this quarter, we had the normal seasonality. The third quarter usually is the worst loss experience in mobile. And in Europe, what we're working through -- in the U.S., we control our supply chain. In Europe, in mobile, we work with partners. And so that's had more challenges for us, and so we're working through solutions as we head into 2019 to have more control over our mobile supply chain in Europe.

Kai Pan
Morgan Stanley, Research Division

Okay. Is your 9.5% margin target for the segment still achievable over the next few years, given now you have TWG in the mix?

Alan B. Colberg
President, CEO & Director

Yes. We're going to have an Investor Day in March where we will refresh what the right way to think about that is. If you'll recall, a couple of years ago, we changed the target from 8% to the 9.5% we have now as a result of -- with the way one of our contract changes happened. So we'll revisit all of that. But I think the main headline for us is we've had good growth in margins over the last few years, and we're going to remain focused on growing the margins.

Operator

Our next question is coming from John Nadel from UBS.

John Matthew Nadel
UBS Investment Bank, Research Division

I think it would be great for you to sell your lender-placed business as the cyclical placement is very low. Anyway, the -- Alan, the new Apple program, can you go into that in a little bit more detail? It sounds like it's -- it sounds on the surface from your description like it's pretty incremental, maybe even significant, but I just want to understand that better.

Alan B. Colberg
President, CEO & Director

Yes. So maybe we have many partnerships across the Connected Living space. One that we're proud of and is important to us is Apple. That really began years ago in Brazil when we worked with them to really launch a trade-in program in that market. They were an important part of our progress and success in Japan. And off of that, we were able to build enough, I think, great relationship credibility that they chose to work with us as their partner in really extending and deepening AppleCare. So we've included our capabilities into AppleCare. We're now distributing [it] through them in their stores through Apple.com. So it's going to be significant, broadening the relationship we have with Apple. And we continue to grow it in various markets around the world.

John Matthew Nadel
UBS Investment Bank, Research Division

Okay. That's helpful. The second question is just lender-placed, you -- it looks like the placement rate is slowing -- the decline in the placement rate is slowing down. And I think you guys have been talking about it for a while that, that stabilizing at some point during in the relative near term. If we think about, though, your 2019 outlook for earnings for that segment or for that business, ex cat, can't we see earnings for lender-placed to grow even if the placement rate actually does stabilize? And wouldn't the driver there be the migration, the single operating platform? I think you had expected that there would be pretty significant cost saves from that.

Richard Steven Dziadzio

Executive VP, CFO & Treasurer

John, it's Richard. I think you hit on a lot of good points there. I think, as we said in our statements a little bit earlier, we do see the placement rate decreasing [or a decrease in the decrease, so to speak.] So it was only 3 basis points over the last quarter. So we see that continuing to moderate as we go forward. We're not calling an inflection point because, obviously, it depends on a lot of macro events, how the housing market is doing. Having said that, I think you did hit on the fact that it is decreasing, that we are in the process of implementing a single-source platform over the next few years. That will start coming in and start moving up -- moving as we go along. So we do feel that we're turning a corner, and the large part of the decrease is behind us. So we're feeling really good about the business.

John Matthew Nadel
UBS Investment Bank, Research Division

Okay. And then last one, and then I'll get back in the queue is I'm just thinking about the Corporate $250 million capital buffer. I'm wondering whether that can be reduced. If I think back many years ago on the rationale for that buffer, I think it related, at least in part, maybe in large part, to some of the pandemic-type of risk that existed when you guys were still in the health and the employee benefits businesses. So am I right in that sort of recollection? And any chance you can reevaluate whether that [cushion] can come down?

Alan B. Colberg
President, CEO & Director

Yes, John. I mean, I think if I take a long view, we're very proud of the way we've managed the capital of the company for both our creditors and our shareholders. And as we work toward Investor Day next March, we are looking at how we think about capital, how we think about what's the appropriate buffer and where we hold it. And so I'll defer that question to March, but we have work underway to how best to think about that to protect our creditors and our shareholders and grow our company.

John Matthew Nadel
UBS Investment Bank, Research Division

Okay. But that seems the goal?

Alan B. Colberg
President, CEO & Director

Yes.

Operator

Our next question is coming from Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

So first, I had a question on just your expense savings program and if you could just discuss progress on that and just the expected trajectory of expenses in the next few years. How much of the cost savings do you expect to fall to the bottom line and by when?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Okay, Jimmy. Yes, so in terms of the overall expenses, I mean, we continue to drive hard on managing our expenses, our overall headcount, et cetera. As I mentioned in the remarks, we were on track for our synergies with TWG. We took out $5 million, looking forward to at least $10 million for the end of this year and on a run-rate basis, being half of the $60 million we talked about. Across the enterprise, we're working on things like procurement and facilities, et cetera, and being very careful about how we're spending and making sure that whatever we spend, we're creating value. In terms of the saves, back in Investor Day, we had talked about $100 million in gross saves. And last quarter, we reported that we were halfway through that mark. We continue to advance. So this quarter, I would just say we're a little bit above that mark in continuing to move forward. And in terms of the goal that we had set there for being $100 million at the end of 2020, we're well on track for that.

Alan B. Colberg
President, CEO & Director

Yes, and Jimmy, you can see some of the benefit of it flowing through the P&L. For example, our pretax margin that we were talking about earlier in Connected Living, some of that growth is coming from these expense initiatives. You can also see it in Corporate, where our loss for this year, if you tax adjust it is effectively the same as last year. And we're a much bigger company this year, so we've been able to grow the company without adding Corporate expense. So we're seeing significant benefits already coming through the P&L even, as Richard said, [we're still on process on these] .

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And then on the acquired Warranty Group business, as you've been able to look at it a little bit -- take a little bit more deeper look at it, have your views on any of the financial metrics that you gave out changed positively or negatively?

Alan B. Colberg
President, CEO & Director

No. What I would say is, I think, we're very pleased with The Warranty Group, the integration so far. The client feedback has been strong, both our clients and their clients about the fact that we're a stronger, deeper company, who can help adapt and build new products for the evolving auto market. We've said the deal we expected to be modestly accretive in 2019, by the end of 2019 [run-rate] synergies, we're still on track for that. We're still on track to meet our [hard] cost savings commitments. So I think we feel very good about it, and it really has strategically strengthened us in the auto market.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And then just lastly, on the Preneed business, your earnings are higher than they've been in, I think, in the last several years on a quarterly basis, and part of that was just very high investment income. So just any insight into what drove that? And is this a sustainable level of earnings? I understand there's seasonality in earnings, typically decline in 4Q. But other than seasonality, do you think of this as being a sustainable level of earnings in that business?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Well, we see some -- thank you, Jimmy. We see some good momentum in the business, as we said. Sales were up quarter-over-quarter. We're bringing in new clients, and we're very pleased about that. The product offering is being accepted well by the marketplace. So that organic growth is helpful. Obviously, Preneed, it's more of a longer-term business, and those profits are spread out in the future. But in this particular quarter, we had not only effects of the past, good news coming through, but we also had higher overall assets in the business and higher overall interest rates. It really just reflect what's happening out there in the market. So we do feel that there's good momentum going forward, despite some seasonality that we get sort of in the winter months.

Operator

Our next question is coming from Mark Hughes with SunTrust.

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

With Apple, it sounds like a nice expansion of the relationship. How much more is there to go? How meaningful is your penetration with Apple versus other suppliers perhaps? Is this -- are we going to continue to see further expansion?

Alan B. Colberg
President, CEO & Director

Well, it's early in the U.S. relationship with Apple, and we will hopefully execute that well. So far, as I mentioned, it's performing to expectations. And our focus really has been to evolve our products and services as the market evolves. So as you've heard us talk about before, we've gone from the original handset protection into things like premium tech support and onboard phone diagnostics and, more recently, with an extended warranty in Japan on the phone. So I think there's a lot of runway broadly in mobile with our various partners around the world.

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

Yes. Manufactured housing and other, you mentioned international dwelling, could you expand a little more on that? It was a big growth number, at least within that category, in the quarter. Just refresh us on what you're doing there. And is this kind of growth sustainable?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

In terms of the international area in manufactured housing, that's really going to be dwelling where we have partnerships with clients and offering that insurance there. And then more domestically, we did have an increase in commercial property. We have a small program there, small size-type premiums and starting to get a little bit of growth there as well.

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

Is this sort of traction that can be sustained? Was this a book roll or something that might have driven growth in this quarter? Or is this something that relationship should help drive volume, similar volume growth in coming quarters?

Alan B. Colberg
President, CEO & Director

Yes, Mark, I think, the way I think about this is we're running various pilots as we try to look -- for example, I referenced in my remarks the [sharing] economy. That's part of what I think flows through what you're referencing. And it's early, but we are building new relationships, new distribution partners. And we feel like we've established our brand, and we'll see how successful these programs are over time. But so far, we're gaining good traction.

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

Last question, you sort of touched on this, Alan. As I think about 2019, you definitely walked us through a lot of new programs, a lot of new initiatives, emerging products. And obviously, those involve investments. When we think about how all of this stacks up for 2019, is it a margin expansion year? Is it an investment year? How do you think about next year?

Alan B. Colberg
President, CEO & Director

Yes, Mark, what I would say is we'll provide a full outlook for '19 as part of our Q4 earnings call in February. But we do feel very well positioned for continued profitable growth, and we look forward to a good 2019 as well.

Operator

Our next question comes from Christopher Campbell with KBW.

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

I guess, just a few questions on Global Housing, just to start off, I guess. So how much capital is freed up as the LPI placement rate declines?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Yes. Chris, there obviously is a little bit of capital freed up as it, I would say, declines. But again, I'd come back to the earlier, earlier comments that, that decline is getting smaller and smaller. So we don't see big releases because that business, I would say, is in a good -- is getting to be like in a really nice place with only 3 basis point decrease in placement rates this year. You can see actually in the top line and the net earned premiums, not a big move there. So we're really not looking at the release of capital from property to increase the overall, I would say, ROEs of the company. That's going to come from the profitable growth across housing and across the capital parts of the Lifestyle business like Global Auto.

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

Okay. And then just a question on the Global Housing guidance. So there is some qualitative statements in there. Global Housing savings by year-end '18 and into 2019. Have you been able to like see through some numbers on that yet, just in terms of what you're thinking of saving on the expense base there?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Well, I would say to sort of -- again, I'd come back to Alan's earlier comments about we'll do outlook and be more specific about 2019 when Q4 comes around. But as we look at Global Housing, we see that we do have an expense ratio that's elevated as the revenues have come down and we haven't yet put it all in the platform. That will come in over the next year, so we do see that expense ratio coming back down over the next few years, I would say more gradually than rapidly in '19.

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

Okay. That's very helpful. And then just pivoting to Global Lifestyle and thinking about the new AppleCare relationship, how should we think about premium growth and then the margin performance, particularly as this relationship develops and potentially expands?

Alan B. Colberg
President, CEO & Director

So we normally don't give any specifics on clients and the performance of a given client. What I would say about Lifestyle broadly, we've had a long-standing commitment that we can, on average, grow that business's earnings by 10% per year. Now it's not 10% every year. Sometimes it's more, sometimes it's less. And if you go back to 2013 when we first put out that commitment, we've delivered on that. And we feel well positioned to continue to deliver on that, in part because of expanding relationships like with Apple and KDDI and Comcast and others that we've talked about.

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

Got it. And then just as your thinking about like all the cat views -- going back to Global Housing for a second. Just if you're thinking about like the cats, is there anything else that you can do on the reinsurance side, potentially to save [costs] , especially as you're bringing in some new products?

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

Well, I think it -- it's Richard. As Alan mentioned earlier, we are -- we have over time, I guess, I would say brought down the retention rate. The market obviously is very receptive to our placing reinsurance. I mean, we've worked with the reinsurance market for a long period of time. We have some good, stable reinsurers in there. So I think just us -- the relationship we have with them, the knowledge they have of our business will -- helps us get very good pricing in the marketplace when we do that. But we are thinking about, as you go forward, what should our retention be, should we bring it down, what are our aggregates. So there's -- we've got some pretty smart people in the company that spend a lot of time thinking about exactly how we should position it. And we'll give more guidance on that as we go forward.

Operator

Our next question is coming from John Nadel with UBS.

John Matthew Nadel
UBS Investment Bank, Research Division

I think, Alan, if I go back over the past couple of months, it seems like the tone shifted just a little bit in terms of whether you guys could participate in buying back stock directly or as part of a TPG sale. I'm just wondering if there's any clarity on that, given, obviously, you guys are in great position to be able to do that if they decided to sell some more stock.

Alan B. Colberg
President, CEO & Director

John, what I would say about TPG is, as I've said, they've been and we expect them to continue to be economically rational as they sell their positions. And we were encouraged by their first 2 sales that happened earlier. And as we think about the future, I'm not going to speculate on what they might do or what we might do, but I think they will continue to be economically rational.

John Matthew Nadel
UBS Investment Bank, Research Division

Yes. No, I'm not asking for you to speculate on what they'll do. Obviously, they'll do whatever they do. But I'm just curious whether from a legal perspective or a structural perspective, I guess, can you guys participate to the extent that they decide that they want to sell?

Alan B. Colberg
President, CEO & Director

Yes, legally, we could. But again, let's just see how this plays out. But I think, so far, it's played out well.

John Matthew Nadel
UBS Investment Bank, Research Division

Yes. And then second question, a little bit more delicate, Alan, but let me phrase it this way. There's a couple -- a couple of months ago, maybe there was some speculation that you guys were maybe approached by a large foreign insurance company. And there were some specificity around what that company may have offered. I'm not looking for you to confirm whether an approach actually took place, unless, of course, you want to. But what I am interested is the thought process you and the board might go through if such an approach did take place. And I'm thinking about this primarily given the longer-term growth story you're laying out is pretty attractive, global vehicle, mobile, renters, just to name a few and then all the new product expansions that you guys are investing in today. It just seems like your top and bottom line growth over the next several years, if not longer, could be pretty strong, and I just want to understand how you and the board would balance that longer-term growth outlook against a nearer-term potential offer.

Alan B. Colberg
President, CEO & Director

Yes. No, I appreciate that. First, we never comment on market rumors. So I won't comment on that. We do feel very well positioned as a company. We've driven profitable growth the last couple of years. We are well positioned in many lines of business to continue to grow. You know I'm a director. We have a fiduciary duty to create value for our shareholders. And if somebody did approach us with an attractive offer, we obviously would take it appropriately.

Operator

Our next question comes from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

Just -- yes, just one follow-up on the AppleCare. Do you have any early indication of the take-up rates? How does that compare with your typical mobile offerings?

Alan B. Colberg
President, CEO & Director

Again, we normally don't go into specifics of any given client program. What I would say is it is performing as we expect.

Operator

Our last question is coming from Mark Hughes with SunTrust.

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

Just on the catastrophe retention, maybe this is more of a comment. But you'd see some of the Florida-specific carriers that have reduced their retention. It would be interesting as an investor and analyst to see kind of the trade-off of lowering your retention, what that would mean to quarterly earnings. A reasonable case could probably be made that it would end up being a net positive for the value creation, let's call it, a multiple that the market would be willing to pay for your stream of earnings with lower volatility. A lot of big diversified companies have made the decision that, that cat exposure and these volatile quarters are just not worth it. I think over the long term, they probably are. But it would be interesting to see what the trade off would be on that front. So just -- and I know that's a decision you make internally, but it seems like a lot of folks are going in that direction. Anyway, no question there, just a little pontificating.

Richard Steven Dziadzio
Executive VP, CFO & Treasurer

No, Mark. It's Richard, just to respond to your statements. I would say I think you're spot on with them. And we have, as I mentioned earlier, working groups working on exactly that. Just think of -- I think about it as we do have a cursor set in terms of exactly what risk we accept, what risk we lay off and what is the stability of the earnings overall. We've brought it down, earnings are more stable. As Alan said in an earlier question, our company is getting bigger. And so the exposure that we have to cats is getting smaller, just by definition, particularly as multi-family grows and lifestyle grows. So we definitely are looking at all of those things and -- but I would say if we look year-to-date through Q3, even with Hurricane Florence ride up a little bit sub-92% combined ratio, so even there, that's a nice ROE for the business overall.

Alan B. Colberg
President, CEO & Director

Thanks, Mark. I want to thank everyone for participating in today's call. We're pleased with our results so far this year, and we look forward to updating you on progress for our fourth quarter earnings call in February. And we are going to hold Investor Day now scheduled for March 14 in New York, and more details will be coming on that in the coming months. In the meantime, please reach out to Suzanne Shepherd or Sean Moshier with any follow-up questions. Thanks, everyone.

Operator

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