Keefe, Bruyette & Woods Insurance Conference

New York, NY

September 5, 2018 8:40 a.m. ET

PARTICIPANTS

Corporate Participants

Alan B. Colberg – President, Chief Executive Officer & Director, Assurant, Inc.

Other Participants

Christopher Campbell – Analyst, Keefe, Bruyette & Woods

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

Hi. Good morning everyone. This morning it's a privilege to have Alan Colberg, the CEO of Assurant, here with us today, and he's going to, we're going to chat about Assurant and then any questions that you have as well along the way. So, thank you for coming, Alan.

Alan B. Colberg, Assurant, Inc.

And Chris thank you for hosting us, we look forward to talking to people in this forum and then we'll be here all day pretty much.

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

Well, I know a lot of people are excited to learn more about Assurant so we're really glad you're here. Alright, so I guess I'll start off with a few questions. So, Assurant's built off around fairly unique specialty businesses. Can you give us an overview of the products and services that you provide? And then how you think about areas that Assurant can compete effectively in?

Alan B. Colberg, Assurant, Inc.

Ok. So, the way to think about Assurant is we're more than a traditional insurance company. What we do is we partner with the world's leading consumer companies. So, that could be a manufacturer making a cell phone or a car, it could be a distributor, think a retailer or a carrier, or it could be a bank. And what we do for those large companies and for their consumers is we partner around the purchase event and then the ownership. So, we're often embedded as part of the purchase and then we provide support services throughout the ownership. So, we've done that consciously and we've really focused the company down over the last several years over five consumer purchases, five value chains. Those five are the mortgage, so you're buying a house, the rental, which could be you're renting a house, could be you're renting in a sharing economy, the third is the consumer device, so that could be a washer dryer, it could be a cell phone, the fourth is the car, and then the fifth is the funeral. So, in those value chains, we partner with

those leading companies and we manage the consumer experience around purchase and ownership. I'll give you one quick example in mobile just to bring that to life if you're not as familiar with us. We provide the traditional handset protection, so you lose your cell phone or break your cell phone type thing, and it's covered. But we also do things like we run the repair & logistics that support the fulfillment of claims and we processed 8 million devices last year in our facilities and we make money for example on buyback trade-in programs, have nothing to do with insurance.

We also in more recent years have really gotten involved in premium tech-support. So that's a fee per subscriber per month that's bundled into the handset protection and we're helping troubleshoot, you can't get your nest camera, or your nest thermostat, your Ring camera, your Comcast Wi-Fi, you can't get it all to work. We're doing the customer care, which ensures they get ownership value out of what they've purchased.

And increasingly, we are doing things like that in all of our value chains. So yes, there is always insurance, it's kind of the anchor product, mostly service contracts in a lot of these. And then we add things on top of it.

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

And as you think about profitability between the fee-based businesses and the underwriting operations, is it a holistic view of ROE? How should we think about just – what metrics is Assurant focused on?

Alan B. Colberg, Assurant, Inc.

Yeah, so, there are really -- you hit on a key point, Chris, which is we really have several different economic models that are intertwined. So, it's hard to think about purely separating all of them but one key metric in our risk businesses, so true risk bearing businesses, we focused on the combined ratio. And so, for example, in the vehicle service contract business, which is a risk-based business, we've given a long-term target of a 96% to 98% combined. So, we're profitable even before you think about investment income. And we're in that band. Some quarters we're a little above, some quarters we're a little below, but long-term, we're in that band. For our lender-placed homeowners business, we've given a combined ratio of 84% to 88%[(1)] long-term and we're generally in that band. I think we're slightly over it in the last quarter. So, the risk businesses, we manage to a combined ratio and we managed all of those combined ratios, targets are below 100 that we've put out publicly, which is not typical for a lot of insurance businesses. And it's because we're doing more than insurance in all those businesses.

On the fee-based businesses, we look at pretax margin. And really, we look at EBITDA as well because they're really fee businesses. And there, for example, in Connected Living, which has -- it has insurance and in the sense of mobile but mobile insurance is not a real risk product, it's much more of a servicing product. So, we've given a target to Connected Living, originally, we put out a target of 8% and we had our Investor Day pretax margin, and now we've raised it to 9.6%[(2)] because of some accounting changes on one of our client contracts. And we're up to what? 7.5% or 8% margin today. So, we're not quite to our target there. When we put out that target, we were below 3%. So, we've made enormous progress.

And then, we have businesses that are more low capital intensity like our multifamily housing business, which is really rental. And there, we've said 15%[(3)] type pretax margins are what we can expect to earn and run. So, we look at combined ratio for risk and we look at kind of EBITDA or pretax margin for the fee income. You put it all together, at the enterprise level what we focus on is number one, growing earnings. And we put out a target this year originally, we were going to grow earnings 10% to 14% versus last year, primarily as a result of tax reform with some modest organic growth. After the close of the purchase on The Warranty Group, which closed at the end of May 31st and I'm sure we'll come back and talk about that

a little bit, we raised our outlook for the year to now we're going to grow earnings 20% to 25% for the full year.

So, we focus on earnings growth, EPS growth through our capital management and then we put out a long-term ROE target of 15% at our last Investor Day. There, we're not there yet, we're at about 11.5% ROE and one of the things we've talked about to our investors is we need to do a new Investor Day. Now that we've merged with The Warranty Group, it's really changed the complexion of the company and we'll do that probably in March. And we'll lay out updated targets and my other commitment to investors has been we'll create more of a line of sight to how we get to those targets. Before, we put out targets, we didn't really provide a roadmap. This time, we'll refresh the target and then provide that roadmap.

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

I think that would be very helpful. Any initial questions before I jump into some of the Assurant segments? Okay. So, we'll start with the biggest one. We'll start with Global Lifestyle. I guess -- I know it's still early but how is The Warranty Group integration progressing? Cost synergies look like they're progressing well. Do you see any revenue synergy opportunities?

Alan B. Colberg, Assurant, Inc.

Yes. So, the interesting thing about The Warranty Group – so, if you've heard me talk before, we put a very high hurdle on M&A. The execution risk causes us, as all companies should, to put a higher respective return. The interesting thing about The Warranty Group, they were in three primary businesses. We're in all three. So, this is not a case of we're buying into a company we don't understand what they do. So, their three big businesses -- number one was auto. They were the market leader in effectively U.S. auto. We were a pretty strong competitor. Their second big business is service contracts, extended service contracts. We're a long-time player in that. And their third are fee income products in the financial services channel, which we have a long history of as well.

So, when we looked at the deal, we started with pure cost synergy, SG&A. And the public commitment that we made was that, A -- the deal would be modestly accretive by the end of 2019, if you look at run rate. And second, we could deliver $60 million pretax of hard cost synergy. And on the last earnings call, Richard and I provided an interim update two months in, which is we're on track this year to $13 million pretax, $10 million after tax hitting the 2018 P&L and that's part of that outlook we gave of 20% to 25% earnings growth. And we're about halfway to the run rate of $60 million already with the actions we took in the first two months. So, if think about that, it's $30 million pretax[(4)], you would expect all of that to hit the '19 P&L plus whatever actions we take, you know, that was as of the end of July that we gave that outlook. That's just pure cost. And we were able to negotiate with TPG and agree a deal where we didn't pay all of those synergies away. That's how the deal is modestly accretive.

In addition, there are synergies we didn't factor in to the evaluation at all. A couple of simple ones and I'll get to revenue. One is claims cost. So, when you think about claims, we now control 47 million vehicle service contracts and that gives us scale to negotiate for repairs, for maintenance. We didn't factor any value into the deal, but we are going hard at how do we take that combined scale and go negotiate better rates for every repair we do, for every prepaid maintenance we do. And we don't know yet how much that will be but it's a significant upside and we have scale that nobody really has that can drive volume into repair facilities.

And then if you go to revenue synergies, we've launched an effort led by our team and Keith Demming's, who is Global Lifestyle's President, we've identified at least 12 specific immediately actionable revenue synergies. Again, none of these are in the deal model and revenue synergies won't help '18, they'll help '19

a little bit, they'll help '20 and beyond. But a simple example of revenue synergy is, let's say we have a dealer group as a partner in auto who has U.S. and Canadian operations. The Warranty Group did not operate in Canada, so they would have had the U.S. and not Canada. We have a very large scale Canadian business. And so, one of the immediate things we can do is go to every client that operates in both U.S. and Canada and try to make sure we get U.S. *and* Canada. That's a simple example.

Another example, in markets like Japan, they had a very, TWG, had a very strong home warranty business. So, the ability to go out in the field and manage a delivery of a repair around the house, or a device in the house, so not the house but a device in the house. We have a very strong mobile business that creates immediate opportunities for us to do things leveraging mobile with their home warranty.

So again, I don't want to oversell revenue synergy. We weren't willing to pay a penny for it, but we think it's real and we think it will have material impact when we get out to like 2020 because you have to set up the program to launch the program, you have to try to make it successful. But no, we feel very good about where The Warranty Group is. You saw in our quarterly results, we had about $9 million of profit just for the month of June. And so, so far so good. The deal is at or above our expectations.

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

So, just kind of taking a step back and looking at this strategically. So, you had mentioned The Warranty Group has a very strong position in U.S. auto. So, what about the auto industry, because you're kind of making a bullish bet on it? So, what about those fundamentals were attractive to Assurant?

Alan B. Colberg, Assurant, Inc.

Yes. So, there are quite a few things and you're absolutely right. We really like the auto business. We have, to put aside The Warranty Group, as Assurant, we have a multiyear history of growing that business 10% plus a year. So, we've had strong organic growth as Assurant. The Warranty Group has had similar strong organic growth. And if we look at the major trends that are coming, we feel like having the scale we now have, we're uniquely positioned on those major trends, let me just talk briefly about a few.

One is electric cars. So, if you think about electric, our hypothesis, and it's very early days, is electric will drive up attachment rate of service contracts and the reason why is that it's a lower frequency but higher severity claim for the consumer. And as you know, the majority of consumers can't afford the $1,000 claim. They certainly can't afford a $5,000 claim on an electric car. So, by having the scale we have, we'll have more knowledge of electric.

The other interesting thing about The Warranty Group on electric is they have a position in China and China is clearly, in my view anyway, ahead of the U.S. in developing electric cars. And we can take that learning, and I also personally believe the Chinese OEMs will be very successful with electric, and we build those relationships now, it sets us up. Because we not only work with dealers, we work with the auto manufacturers directly. So, that's one key trend, electric.

Second key trend is autonomous. And autonomous, forget all the noise you heard about the issues that have happened with some of the tests, it's real and it's going to happen. Whether it's 5 years or 10 years or 15 years to be truly transformative, nobody knows, but we believe autonomous will cause a couple of things to happen. One is ownership of cars will gradually shift to corporations. So, if you think about fleet operators, so take a big OEM, they would rather operate the car for the first few years in a fleet and then sell it. That actually gives them more control of the economics. So, we're trying to be in the position of we can enable that large company as their fleet operator. We can manage their maintenance program. And then when they go to sell the car two years later, they can include our service contract to increase the

value. So, we look at it, hey, our sweet spot is working with large companies around things they do for consumers, if they're going to operate cars for consumers, that actually drives business toward us. So, we get excited about autonomous.

And then the final big trend is connected -- connected cars, connectivity in the cars. And we're already doing a lot around that in a very simple fashion today. So, with one of our partners, you can buy a little device that converts your car into a Wi-Fi hotspot. And we're providing the protection services and the care around that little device. But where it's headed is they'll be connected components embedded in every car and we can manage the connectivity because we're one of the leaders in mobile, we're one of the leaders in auto, we can cross those.

So, we look at -- and the other important thing about auto is we play on new and used pretty much equally. So, a lot of times, people are concerned while new car sales were near a peak, they're going to decline. Maybe true, maybe not. The reality, though, other than the Great Recession in '08, '09, car sales are relatively stable. What changes is the mix between new and used and we're effective on both, with very different earnings patterns. So, when it's a used car, generally, we start to earn on that service contract right away because most of the time, the manufacturer warranty is gone or there might just be a little bit left. On a new car, what happens is, we're selling it today and it goes up on our balance sheet as unearned premium and we don't start to earn on that till 3 years out or 4 years out. So, it creates a very predictable future revenue stream. But we don't really feel strongly either way, new or used. And whatever the consumer wants to buy, we have an opportunity either way.

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

Very helpful. Just switching gears from auto, still in Lifestyle. What are the latest trends you're seeing in mobile? Income streams that you had mentioned, there are a lot of different ways that you generate fees and revenue for the mobile insurance and the other operations. So what trends are you watching?

Alan B. Colberg, Assurant, Inc.

Yes. So first of all, we're very proud of our track record in mobile. We announced on our last earnings call, we're up to 44 million covered devices globally. You think back 5 years ago, we were barely in the mobile business. So, we've really built a strong franchise. And how have we've done that – it's really been innovation. And so, it's bringing the next new, disruptive idea. So, what we've talked about historically is working with T-Mobile years ago to create the Jump program, where we enabled that program by doing the logistics and the buyback that allowed a consumer to trade in a phone whenever they wanted and get a new phone.

Another great example of innovation is we partnered with Apple and we -- I think we're their only authorized partner who can wrap AppleCare with insurance services. And so for example, what we did in Japan, the product we rolled out with KDDI was a joint effort, kind of KDDI, Apple and Assurant, where the product, it's addressing a key macro trend, which is consumers are holding phones longer because the innovation in the phone is slowing down so now that you have a longer hold time, and I'll come back to that trend in a minute, but in Japan, the average hold time is already north of 3 years on a phone. If you look at AppleCare, AppleCare only protects mechanical breakdown generally in the first 2 years. So what KDDI wanted was a product that also extended mechanical breakdown into year 3 and 4, so think of a service contract like we do in auto. So, what we rolled out with KDDI is it's embedded AppleCare, we provide the insurance on top of AppleCare because AppleCare has no insurance. It's purely a mechanical write down product. So we provide the loss of theft that across all years and then year 3 and 4, we're providing the extended service contract with Apple helping fulfill it. So, it's a really disruptive product, which is why we've had the enormous success we've had so far in Japan.

So, we've had a great history of innovation. The key trends we're seeing, one is the phones are not getting cheaper. And the result of that combined with the subsidies generally coming off the phone in markets like the U.S., we've seen gradually rising attachment rates on service contracts. In markets like the U.S., we're now in the mid-'40s at point of sale of consumers buying a service contract. And then we're adding even more value, one of the things we're really trying to do is when you buy a service contract, we want you to get value even if we never used the service contract. So it never got broken or lost. So for example, the premium tech support embedded in the service contract, you can't get your phone to work, we're going to help make it work. It isn't -- you didn't break it, you didn't lose it, you're just having trouble making it do what you want it to do.

So we're trying to create this notion of who you get value out of the service contract whether you actually need the traditional benefit of a loss or damage to it. The longer headset time, it hurts us in some minor ways. For example, our repair and logistics volumes, if you go back a few years ago, we'd always have a big third quarter spike when the new phones would come to market. That's really been new to the last few years because the new phones haven't been disruptive enough to really create it. Now our volumes are gradually going up because our scale is going up, but we're not seeing that spike.

Now I'll digress one more minute, Chris, I have a tendency to digress a lot. You fast forward, the big disruptive trend coming in a few years is 5G. So 5G, in order to use it, you're going to have to get a new phone. And as 5G begins to phase in and probably it's an early '20s or '21 type event, we expect a lot of trade-in buyback volume activity as the consumers have to over a couple of year period, probably upgrade their phone. So there will probably be a burst of activity, we're very well situated to handle that if it comes. But the rising attachment rate, the longer hold time and then coming up with solutions for the consumer experience when they own the phone longer, we're really focused on that.

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

Any questions? I was going to shift gear to Global Housing. In case there were any questions on The Warranty Group or Global Lifestyle segment?

Unidentified Audience Member

So, with the mobile without the upgrade cycle, does that (inaudible)…

Alan B. Colberg, Assurant, Inc.

It's fairly neutral where we are today because we make money every time we touch a phone. Forget insurance for a minute. So if there is not a spike in trade-in activity, that's kind of the world we've been in the last 2 or 3 years, that's the world we're in. The upside for us is if there ever is a spike in trading activity, i.e. it's driven by there is a new phone introduced people actually want in a meaningful way or we have 5G and they're forced to trade in. So we're kind of in a neutral period where we're gradually growing as our contracts grow and we have access to more volume. We don't have the spikes we used to have. We used to have really strong spikes in the third and fourth quarter, which was a lot of incremental volume that we can make money because we make money every time we touch a phone. In some way, shape or form.

Unidentified Audience Member

Good morning Alan. You mentioned that you really don't start seeing revenues for 3 or 4 years because I assume because of the deferred revenue component of auto extended warranty, right?

Alan B. Colberg, Assurant, Inc.

Yes, so on a new car sale, which is what I was referring to, the underlying manufacturer warranty has to run first. So we're being sold as part of the purchase. We're collecting our premium as part of the purchase but our service contract doesn't kick in until the underlying manufacturer warranty lapses, which generally call it 3 years. So we have a big unearned premium preserve. I think we had about $4 billion added from The Warranty Group. That's premium that will -- we've collected and will flow through year 4, 5, 6 timeframe.

Unidentified Audience Member

That's the point. You're getting the cash up front.

Alan B. Colberg, Assurant, Inc.

Yes.

Unidentified Audience Member

You're able to invest that cash today, so get investment income on it.

Alan B. Colberg, Assurant, Inc.

Yes.

Unidentified Audience Member

And how do you recognize the losses, do you IBNR it immediately?

Alan B. Colberg, Assurant, Inc.

So we do -- I'm not actually not 100% sure on how the accounting's all the same, Richard I'll defer to you if you want to comment on that?

Richard Dziadzio, Assurant, Inc. - Executive VP, CFO & Treasurer

Yes, we are going to be (inaudible)…

Unidentified Audience Member

Right. So for the first few years, you don't need to put any reserves on it?

Alan B. Colberg, Assurant, Inc.

I don't think we do.

Unidentified Audience Member

Right. Got it. Okay. And then just with respect to The Warranty Group and TPG as the large holders, what are the -- what's the latest and greatest in terms of managing their potential stock sale?

Alan B. Colberg, Assurant, Inc.

Yes. And by the way, that was Richard Dziadzio, our CFO. So Richard thank you for, I was making sure I didn't confuse the way The Warranty Group accounted for it, the way we accounted for it. So TPG, at the end of the day, they own about 10 million shares, 10.4 million. They have a lockup of -- half of that lockup is now gone. It lapsed last week and the other half of the lockup lapses at the – it's late November. And so, we don't know what they're going to do and it's not really appropriate for me to comment on what they might do. What I would say is they're economically rational. I'm assuming whatever they're going to do is going to be not that disruptive to our company. So -- but don't know what they're going to do.

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

Any other questions? All right. Shifting gears to Global Housing, so lender-placed continues to be pressured by the strength of the housing market. You're still seeing placement rates decline. How are you thinking about that business? And just, now that we're in CAT season how do we think about risk management on it as well?

Alan B. Colberg, Assurant, Inc.

So first of all, I think we've loved the lender-placed homeowners business. It's what's allowed us to generate the cash flow over the past decade, that allowed us to build the mobile business, it's been a critical business for us. And even where it is now near the bottom of the cycle, it's still an attractive business earning good returns. And the reason why is it's really much more than insurance. It's a very complicated tracking and administration business. So, we monitor 35 million mortgages in the U.S. We deal with all the correspondence going to the consumer around insurance related to those mortgages. We then run effectively a massive brokerage operation to make sure that the consumer has insurance and only at the last resort, if the consumer can't get insurance, i.e. the home is vacant, or the consumer wants our insurance, our product is pretty competitive now, we then have what we call placement rate. And that 1.7% placement rate is the policy at the end of the day.

So, what we've been focused on is this business has been declining because if you think about what drives placement rate, it was well over 3% at the peak of the financial crisis. Most of that is vacant homes. So, what we're doing is we're protecting the house on behalf of the mortgage company and we have a pretty stable business where consumers are buying the products. And they'll buy the product because they can't get voluntary coverage wherever they live or now they buy it because it's pretty price competitive in a lot of markets with voluntary product. So that piece is fairly stable and growing a little bit.

The piece that's been declining is vacancy. So, the foreclosure crisis is largely gone and that's where placement rates have come down. What we've said is we expect the placement rate declines to moderate as you go into '19 and beyond because we've got this large tranche, which is the consumer's buying the product and we've largely worked through the vacancy.

So, what we're trying to do and I said this on the earnings call is for 2019, we have line of sight to lender-placed could be flattish. So, earnings ex. CAT flattish for 2019. That's a statement we've not made in many years. And that's even with the placement rate still gradually declining. We're just assuming no improvement or deterioration in the housing market. And then that business is very countercyclical. So, if we get any kind of downturn in the housing market, you start to get seriously delinquent and foreclosures again, we're going to spike up that business dramatically. So, what we've tried to do is get it the stability and when we think '19 will be the year we're basically at stability and then with big upside if we have any kind of weakness in the housing market.

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

And what you have to -- I mean as you kind of right size the cost structure at this time, would you have to make a lot more incremental investment, if we enter another housing downturn?

Alan B. Colberg, Assurant, Inc.

So, it's going to be far more scalable in the next time we go up. So, if you think about the last crisis, we added basically people to deal with the volume. We added probably 4,000 people at the peak from what we had going into the crisis and we did that because of the volume and the incredibly increased compliance requirements that were on the banks as a result of the housing crisis. We've been – you've heard us mention, we've been investing now for a few years in our single source processing platform. And what that will allow us to do and we're still early. We've done a couple implementations, we're starting to get value off of it, we've got to roll out over the next couple of years the rest of our clients. What it allows us to do is today, we hire a new rep to work in lender-placed. It takes 3 months to really become able to use our systems because they're built from 6 different M&A deals. You have to go around this system, that system. The single source system does two things, one it's really easy to get somebody to work on it and then more importantly, right now, when a loan trades hands, we have to re-onboard it in the system, in our current system. So, every time a loan portfolio trades hands, it probably stays with one of our clients. We have 75% or 80% market share, but we incur cost every time there's a trade. With SSP, once its rolled out, it's going to track loans. So, we don't have – if it moves around servicer, we don't incur any cost. So, we're going to have a significantly more leverage I think in the next, if you get into any kind of growth in that business again.

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

To the question you recently sold mortgage solutions and I think you attributed that to a lack of path of the leadership in that business. There are some other niche type of businesses you have within global or financial services. Would you consider selling those or parts of those as well?

Alan B. Colberg, Assurant, Inc.

Yes. So, let me -- I will answer and then I forgot your reinsurance question on lender-placed.

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

I apologize.

Alan B. Colberg, Assurant, Inc.

I'll come back to that. I forgot as well. The way we think about that is we want to be in businesses where we can be a market leader. And the reason we think that's so important is that it allows us to be reinvest, to innovate, to be relevant as the world changes and evolves. And the challenge we had in mortgage solutions is although our early progress was pretty good – when we first bought those companies, we gained share, but then, as the default crisis went away, a lot of those businesses were linked to default activity, the market got even weaker than we thought and we just couldn't see a path to leadership there. And I feel very good about the outcome we got selling it to Xome. We sold it to Xome, which is a division of Nationstar, which is one of our big clients. So it's just another kind of relationship that we have in that whole world.

In terms of other businesses, everything else we do, we're pretty much the market leader. So, if you look at credit insurance, credit insurance is a legacy product in markets like the U.S. and the U.K. But in other parts of the world, Canada, Latin America, it's still a very attractive, viable product. And in the U.S., we're starting to see new opportunities in the banking channel. We're doing a lot of fee for service in the banking channel because the banks trust us to deal with their consumer. So, there is no insurance but we're managing complex programs that their providing as a benefit to their consumers.

Let me go back to reinsurance. So, one of the things we're very proud of is how we manage risk in the hurricane exposed business, the CAT exposed business. So, we have a very strong reinsurance program. You really saw that in action in 2017. So, 2017 was a one in 30 type hurricane year. The fifth most active hurricane season since they started records in the 1850s and at the end of the day we paid about $190 million as Assurant, after-tax in losses. But it didn't really affect us. We didn't have to put capital down into any of our legal entities. The majority of the losses were paid by our reinsurance partners. And that's the program we have in place today. So, what we have in place is if there is a storm, a named event, we're on the hook for up to $120 million in losses. And then from $120 million to well over $1 billion, it's all done through reinsurance. And we put out in early June, a much more detailed explanation of our reinsurance program. So, we're managing that tower to a one in a 170 type year event. So, our probability of having any real issue with a storm is very, very low.

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

Any other questions from the audience?

Unidentified Audience Member

Could you just give us an update on capital management philosophy now past Warranty Group?

Alan B. Colberg, Assurant, Inc.

Yep, well I think the important headline is nothing has changed. Right? So, we're very proud of our history of capital management. We are fortunate that our businesses are very cash flow positive. If you look at our entire history as a public company, what we earn in the legal entities, we're able to upstream on average 100% to the holding company. And that hasn't changed. In fact, this year we're going to upstream more than a 100% because we have the benefit of some of the tax reform. We had a net deferred liability position which released capital, and then we're able to bring up this year the 12 months of earnings of The Warranty Group not just the 7 months that we own them. So, we've said publicly, we're going to have more than 100% this year.

How do we think about what we do with that? Well, first of all, it's our shareholder's money, right? So, we've had a long history of returning it to shareholders. And if you look at since the IPO in 2004, until the end of 2017, we bought back 63% of our equity in that time period, the number of shares outstanding when we issued the IPO. And you saw what we did, post The Warranty Group closing, we had said we were going to revisit our capital position at the end of The Warranty Group close. When we revisited, we'd been very conservative in our communications and we didn't have to pay any additional cash to TPG, that was $100 million, and we immediately said we're going to start returning it. So, first thing we do is we return capital to shareholders. That hasn't changed.

Second thing we always do is we fund organic growth. And we've been able to fund that while still bringing up 100% on average.

And then third, we're very selective on M&A. And what we've done is, normally we do fairly small M&A deals so they are extending our capability in a country or for example, we when we bought the Lifestyle Services Group out of Phones 4U in the U.K. gave us market leadership in the U.K. market. And then, a big deal would be a once in a rare occasion where we just saw such an opportunity with the overlap of The Warranty Group. But the headline is no change. We're going to still generate a lot of cash and we're going to use that cash to benefit our shareholders.

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

Any other questions?

Unidentified Audience Member

Just building on the previous question in terms of capital structure. I believe you have some short-dated debt that's coming due, I think there's even a floater with a call date. I'd like to get your perspective in terms of financial leverage where it currently stands? And what your views in for the future?

Alan B. Colberg, Assurant, Inc.

Yes. So, a couple of comments on that. When we went out and raised debt as part of the close or preparing to close on The Warranty Group, what we said to our debt holders is it's important to us to maintain an investment grade rating. And the reason that matters, our client contracts are not linked to that at the holding company, our client contracts if they have a ratings trigger are linked to A.M. Best strength ratings. So, we always capitalize our legal entities to that. But it's important when we go out to market a new consumer company in a country that may not know us, the fact we're investment grade, publicly traded, S&P 500, it's just a credibility issue for us. What we haven't done is put out any leverage target. What we said to our debt holders is we'll gradually deleverage as just the normal course of time. But we're very comfortable with our capital structure where it sits today.

Unidentified Audience Member

You're going to delever over time. Remind me, is that going to be through organic growth of, I guess, operating EBIT? Or is it going to be through passive liability management, I assume no active liability management's contemplated. But, in other words, is it going to be amortization of debt and no re-issue or is it going to be you're going to grow the business and that lowers?

Alan B. Colberg, Assurant, Inc.

Yes, think of it just as organically as we grow that will naturally delever us a little bit. But we're very comfortable where we are with our leverage ratio and we don't have any plans. And we're very clear with our debt holders as we raise debt, we're going to maintain investment grade and we're well into investment grade today. And we had no plans other than gradually delever as we grow.

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

Any time for one more? Okay. Well, looks like we don't have any other questions. So, thank you Alan, I appreciate your time.

Alan B. Colberg, Assurant, Inc.

No. Thank you, Chris. Thank you.

Footnotes:

(1) Target combined ratio for lender-placed and manufactured housing risk businesses is 86-90%.

(2) Target pre-tax margin for Connected Living is 9.5%.

(3) Target pre-tax margin for multifamily housing and mortgage solutions is 15% to 20%. The mortgage solutions business was sold on August 1, 2018.

(4) Based on our current plans, we expect to realize approximately $13 million pre-tax or $10 million after-tax in synergies by year end 2018. On a run rate basis, this represents roughly half of our commitment to realize $60 million of pre-tax operating synergies by the end of 2019.