Keefe, Bruyette & Woods Insurance Conference

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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.

Welcome to the 2019 KBW Conference. So we're glad you all can join us. And then we're also especially glad that Assurant's President and CEO, Alan Colberg could join us for questions this morning. So thank you for being here, Alan.

Alan B. Colberg, Assurant, Inc.

Good morning.

Alan B. Colberg, Assurant, Inc.

Thank you for having us and we look forward to meeting with everyone here and then throughout the day.

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

Okay great. So, I have a few questions that I'll ask Alan and then we'll open it up for questions periodically and try to make this as interactive as possible. So, all right. So I guess Alan, just starting off. Seems like you've completed this multi-year transformation that you started in 2015 and the stock has responded very positively. Where are you in terms of the evolution of Assurant from kind of a more specialty insurance company to more than just an insurance company?

Alan B. Colberg, Assurant, Inc.

Yeah. So let me give a little bit of the history to how we got to where we are. So over the last four years, we really focused the company down on fewer things. And if you think about the company today, we're really focused around the consumers buying something expensive that could be a house, it could be a car, they could be renting it, it could be their cellphone. And what we focused on are businesses where we can have a market-leading position in partnership with the world's leading consumer company, so the people who are

making those products, selling those products, financing those products. And you've seen us do, over the last few years, get out of a lot of businesses that didn't have those characteristics. So, last year we sold Mortgage Solutions. We had a nice little business, but no way to get it to leadership. We got out of health and employee benefits. We've been adding capability. You saw The Warranty Group acquisition. So, at this point, we feel very good about the businesses we have. Effectively everywhere we play, they're market leading. And through that change, not only have we been able to grow earnings, we've been able to create a very different earnings pattern. So the earnings are more predictable. Our exposure to catastrophes has dramatically reduced versus what it was three years or four years ago and we really now have three strong growth engines around our Connected Living or mobile business; our Auto business and then broadly our rental business that we call multifamily. And then we have two risk businesses in Preneed and then what we do in the housing market that both earn better than market returns. So, we feel very well-positioned today with where we are. With that said, we'll continue to fine-tune what we do as a company. But I think the big moves at this point are behind us.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. Great. Well, thanks for that color, Alan. Kind of digging into like your biggest segment, if we're looking at Lifestyle; very, very strong second quarter results in both The Warranty Group, the acquisition, as well as your legacy business. So I guess can you just talk about overall trends within mobile, and have you seen this momentum continue in the third quarter?

Alan B. Colberg, Assurant, Inc.

Yeah. So maybe, I think, it's important when you look at what is now Lifestyle, which years ago was Solutions, is we have a history now over six-plus years of sustained very strong growth. So, if you go back to 2013, we put out a target for legacy Solutions which was Lifestyle and Preneed that we could grow on average 10% a year earnings. And if you look at it now six years later, we've more than done that. Now, not every quarter, some quarters are down a little bit, some quarters are up, but if you look at longer view, the momentum of the second quarter is not a new thing. It's a sustained trend in that business. And it's really being driven off a few things. One, we continue to win new clients. So in the Lifestyle and mobile business, we've won – I think publicly we've disclosed seven new programs in the last 18 months. That's a big driver. Second, we're doing far more than insurance as you mentioned earlier, Chris. So, if you go back, when we started the mobile business we were really just doing handset protection. We now have up to six different services that we're getting paid for in various forms with some of our clients. That's another major growth driver. So the momentum is not new. And as we look to the future, we've said the second half of the year will be a little weaker than the first half of the year. That's our normal pattern in Lifestyle. That doesn't mean it'll be weaker than a year ago, right. We have strong momentum. But second half of the year, we have a couple of things that happened to us. One, we have new phone introductions. That usually means new programs launch. Anytime we launch a new program, it takes some period of time for us to recover the startup costs that we incur. We also have a bit of seasonality in mobile. Third quarter is when people are out a lot more, you have a lot more claims and water damage. But at the end of the day, that momentum is really strong. And if you look at The Warranty Group, we're very pleased to be able to say on our last earnings call that two quarters ahead of plan, we already hit our cost commitment that we could take out $60 million run rate. We've now hit that as of the end of the second quarter and we're really focused there on how do we leverage the combined companies and take advantage of the opportunities that creates around the auto business in particular. So again, second half of the year, probably not as strong as first half, that's typical but the momentum is strong for the business.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. Got it. And could there be upside to 2019 or 2020 net operating income estimates, if Lifestyle continues to perform?

Alan B. Colberg, Assurant, Inc.

Well, the good news – bad news is there's something really positive happened. It will probably actually cause us to grow a little slower in the short term. We've had another major new client win, for example. That would incur a lot of ramp startup costs. It would be a very good long-term thing. So we don't tend to focus as much on the quarter. We're focused on that long-term build of that business, which if you go back over six years now, has gone well past the 10% on average commitment that we have per year.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. Great. So digging a little bit deeper into Lifestyle, what's your outlook for mobile and warranty over the next few years? And then as investors are increasingly concerned about a potential recession, how would that impact those two segments?

Alan B. Colberg, Assurant, Inc.

It's interesting. So, we're in a fairly fortunate position compared to most companies. So, we have a business and lender-placed homeowners which you didn't ask about, but let's talk about that for a second, that is heavily counter-cyclical. So in any kind of housing downturn, that business will grow significantly. But if you look at mobile and Auto, those are also not that cyclical. So, for example, in mobile, when we launch a new program, the way it tends to work is you start with nothing and it takes three or four years for a program to build maturity. So, our opportunity to sell is when somebody is changing in their phone or buying a new phone. So, if you think about those seven major programs that we launched in the last 18 months, none of them are at maturity. So, we're going to have growth. Even if we didn't sign another new program, we're going to have inherent growth from the existing programs that are ramping, and that's one dynamic we have. Second, if you think about our suite of services and products which used to be just that one handset protection, now we have up to six things. A lot of our clients are not to six yet, so we have an opportunity to add the next service that we already know how to do this proving the economics. So, we're going to get growth from increasing the number of services we have from our clients. And then finally if you think of our parent logistics business, we have the ability to change phone prices quickly. So, if the market adjust and prices go up or prices go down because of tariffs or whatever might be going in the market, that's not a big risk for us because we can quickly adjust. So we look at mobile, we have embedded growth. And then with the seven new clients, we have a lot of momentum and we hope to sign more new clients as we go through this year and into next year. So, we see good growth no matter almost what happens in the market in mobile. Auto is an interesting business. If you look at our business today, we write product roughly 50-50 on a new car sale and a used car sale. But the earnings pattern is very different. So, on a new car sale, we don't really go on risk until the manufacturer warranty is gone. And so new car sales create a lot of future value, but they don't really create any current value. A used car sale, very different. If the manufacturer's warranty is lapsed, we'll start to earn immediately. So, what tends to happen when you have an economic slowdown is that we'll actually grow Auto faster in the short-term because used car sales will pick up. The other thing we've seen in past recessions is the F&I departments; the dealers really desperate to get more revenue. And so if they're having fewer new car sales, they will attach our product at a higher rate. So, if you look at it, again, we don't see a lot of problem from the economic cycle on Auto. The other interesting thing about our Auto business is it's almost all reinsured back to our partners. So although you might think of it as a risk business, the reality is for the vast majority of the clients what we're doing is really managing and servicing a complex administration business, and so, if you have tariffs for example affecting auto parts, that'll squeeze maybe the economics of

the dealer captive. Doesn't have a huge impact on us. So again unlike most companies, we're pretty insulated from the economic uncertainties. We do face challenges as everyone does, of if consumers buy less, there's just fewer opportunities to sell, but with all those momentums we have. If you think about our mobile and Auto business, we have about 100 million customers now that's effectively an installed base. The other thing you see in prior downturns is people are less likely to cancel their service contract. So if you're in a downturn, you'll pay the $10 a month on your mobile protection because you're worried about how am I going to be able to pay the $500 or a $1,000 for a new phone? So we tend to see persistency even go up and downturns.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. Got it. We'd like to pause, open it up to the audience for any questions. There any questions on Lifestyle before I move over to Housing? Okay. It's still early. So we'll let you guys.

Alan B. Colberg, Assurant, Inc.

I'm having my coffee.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. Great. So, within housing, let's start – I'll start a little bit reverse. All right. So let's start with the renters multifamily business. Had significant growth over the last few years where. What's driving this growth and then how are you investing in the business?

Alan B. Colberg, Assurant, Inc.

So we're very happy with our progress and we call it multifamily housing, but it's really broadly the rental business including the sharing economy. We've had double digit growth now for, what, 5, 6, 7 years, really driven off of two things. One is we are the clear market leader working with landlords or property management companies. I think we have 9 of the 10 largest in the U.S. under agreement. And there's a lot of upside in that channel because it's not very penetrated. So, it's a little bit like the old retail service contract business. If you go back a decade, you can sign an agreement at the corporate level. You still have to go execute at the store level and the same thing works in property management companies. We can have an agreement at the property management company level. We still have to go work leasing office-by-leasing office to get attachment. So one of the things that's driven our growth the last couple of years and will be a big tailwind for us is something we call point of lease. So we've invested heavily in technology that makes it very easy to attach our products when you rent an apartment. And we've now got that in motion with about 20 of our clients, with a lot of opportunity to continue to penetrate. So, one thing is we've signed all the landlords, or 9 out of the 10 and now it's really a penetration game and it's fairly early in that penetration game there. And then we have another channel where we work with affinity partners where, like we do elsewhere, we embed in their business model and we've driven good growth. If you looked at our Investor Day, we said, hey, we're still going to outgrow the market. We've said 8% to 10% is a more sustainable top line growth rate in that business really because we've outgrown the market for the last five years. But the market's growing slower. There was a big wave of rental post the housing crisis. Rental is still growing but it's slower, but we're still gaining share. And we're gaining share because of the products that we're offering. You know we've invested heavily – we're still investing in making everything digital. So, if the consumer wants to be 100% digital, they can do that. If the consumer prefers to go back and forth, omni-channel, they can do that with us, which they can't do with some of our early stage competitors. So, we feel good about that business. The other thing we're doing in rental is what about everything else people rent. So if you look at our Investor Day, we've talked a lot about our experiments in sharing economy where we've invested heavily against peer-to-peer home sharing or peer-to-peer car sharing or door delivery. And those are still fairly early. We're not 100% sure how they're

going to grow, how they'll perform over the long period of time, but we really think about rental. And let me back up. Consumers getting that expense of whatever it is they may own it, they may rent it. We need to play around both mechanisms. So, that's why we invest in that business. But it's one of our three main growth drivers going forward and continues to outgrow the market even with all the change and turbulence in the market.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. And then how should we think about underwriting the ROE profile of multifamily?

Alan B. Colberg, Assurant, Inc.

So it's not very capital intensive. If you think about that business, what we're providing is primarily a contents cover. So, we're protecting the things inside the apartment like the TV that's attached or it could be the refrigerator or whatever it is, it's the contents cover. So you don't have the same cat exposure. You could have a little bit of cat effect if a really bad storm hit, but it's really a contents cover. So it doesn't have the capital requirements, it doesn't have the loss profile of the traditional risk businesses. So we've never given an ROE for it but it is a low capital intensive business.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Got it. All right. So, I guess, switching over to lender-placed, I mean we continue to face "pressures", I mean with the strength in the Housing market. Can you talk about some of the underlying trends that you're seeing in the business?

Alan B. Colberg, Assurant, Inc.

So, what we've been able to say and it's a good thing because from my first three or four years as CEO, every year, every quarter I was talking about lender-placed declining. You know the reality is we're now at stability in lender-placed. Put aside ex-cat which is the way we talk about it. And the reason we're at stability with even continuing strength in the housing market is our ability to get rate is now ordinary course. For those who are newer to our story, we did a multistate settlement with basically every state back in 2016 that made our business ordinary course. So if we deserve rate increase, we're going to get it in most states. Our ability to take little bit of expense out, and then a moderation in the placement rate decline; so in that business, the key metric is – of all the loans that we're tracking what percent do we actually place a policy on, that's fallen roughly in half over the last five years. But now it's almost flat lining. It's gradually declining. Our second quarter, we were actually flat in part because we added a small book of high placement loans. But if I fast forward, that business actually is at stability no matter what happens in the Housing market, it stays strong. And then if the Housing market weakens at all with a lag, we'll grow. So it's a really good place to be in that business. The other important thing is we're continuing to invest; investing in a few ways. So one is we went out and we're very aggressive in renewing all of our key clients. We've renewed almost half of our loans tracked in the last six months. So, we've set up a long multi-year runway with that business. And the reason we did that is we're spending heavily on technology. I thing we call SSP, which is single source processing, which takes all the disparate systems that were built through acquisition or acquired through acquisition and makes a much better consumer and client experience and we've now started to really begin to convert clients. That'll take us a few more years, but it's a real differentiator in the market. It's a much better experience for the client. It's a much better experience for the consumer and it's more inexpensive for us to operate. So that business is well-positioned with upside now.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. And can you remind us how long is the average agreement that you signed with clients?

Alan B. Colberg, Assurant, Inc.

So I'll answer that two ways. So our typical client duration at this point is more than 15 years but the average client contract, call it, three years. That business is very sticky and you'll see occasionally books of business move around but its pretty sticky if you think about the complexity if your embedded in the system of a large bank to take the risk to unentangle you. The good news for us is we have about 75% share of the loans tracked at this point. There is only one major back that we don't have and their contract is up in about 18 months so we'll see what happens with that one but this is a pretty sticky business independent of that fact there is a client renewal cycle every 3 years or so.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. Got it. And then – so, I mean Housing gets from the Investor Day - it's like 17% to 20% ROE, then what would be a challenging market. So, what do you think the ROE or earnings upside would be given the expense management and initiatives that you're doing in a more favorable market. So, if we get into a recession, it's just a 30% ROE business, 35%. I mean where could this go in a downside?

Alan B. Colberg, Assurant, Inc.

So, Chris I'd answer it a different way which is more about earnings, right. So if we get into a downturn in Housing at all, what will grow for us is placement rate. So we'll have more policies. So our earnings will grow. It is a rated filed approved product. So if we are able to leverage our scale, we will give that back to a degree, right we think about it we said we can write it in 86% to 90% combined ratio and that's roughly what we're going to stay and the states won't allow us to start to write an 80% combined ratio for any period of time. So I don't think about ROE, I mean ROE will go up a little bit if we have that effect. But it's much more about earnings. We can generate a lot of earnings. So the way we think about that business, we've been able to get a very good ROE no matter what the Housing market is and what's going to vary is earnings and that's really driven by the number of policies. So as we take out expense, the good news is we'll pick up a little bit of ROE in the short term until it goes back in but it's really about ensuring we're the market leader with the best capability, but think about earnings growth more than ROE expansion.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. And then as the placement rate starts to respond in a downturn, what's the normal lag that you would see before when you start seeing like leading indicators of the housing market and then when does that start to tick up the placement rate and then when does that mature, like what does that path look like to drive earnings?

Alan B. Colberg, Assurant, Inc.

Yeah. So there is definitely a lag. So if the housing market starts to weaken. Let me really back up. Our lender placed business really writes in two segments. So one is voluntary where the consumer is choosing to buy the product, they're current on their loan and that business is actually pretty stable and growing, because our rate difference now relative to the market there's not a big difference anymore with the changes post the 2008 crisis. And so we tend to have that business any time there is a cat in an area, we'll grow that business a little bit, so that's pretty stable. What varies is the basically seriously delinquent and foreclosure properties. So, if you think about that business, you need to get to where the consumer is not paying any more on their

mortgage, but they still have to have insurance right, so that we would step in. So there's a lag call it 9 months, 12 months from when a house starts to begin to not be current till we start to really place policies. So there's a lag. If the housing market is weakening today, which leading indicators say maybe, that would maybe benefit us a year from now.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. I'd like to open it up for – to the audience for – does anyone have any questions for Alan? Okay. The gentleman, if you could just wait for a microphone, so we could get you just for the benefit of the webcast if you guys can wait for the microphone.

Alan B. Colberg, Assurant, Inc.

Right behind you.

Right behind you, Freddy. Yeah.

Audience Question

Okay. I was just curious on the process of adjusting rate to the extent that combined ratio were to drop below the 86% band to 90% band. Do you guys proactively do that or do you get a gentle nudge from the regulators or how does that whole process work?

Alan B. Colberg, Assurant, Inc.

Yeah. Post our multistate settlement a three – few years ago, we and most states follow every year. So it's a pretty standard recurring process with the state. So they don't nudge us, we're just going back in for our regular rate filing.

Audience Question

Would you proactively reduce because its uncertain the combined ratio is 84% because it might be just noise. If you didn't drop the rate would a regulator come back and kind of encourage you to do that or do you have more leeway than that?

Alan B. Colberg, Assurant, Inc.

Yeah, so I think it depends completely on which state you're talking about. So you know the states – most states are fine, and they'll – if we truly had some actuarial evidence that maybe the 84% wasn't going to stay there, we wouldn't have to reflect that. States like California would immediately make you take it. So where states like Florida that we're an important part of their structure it can be very different. But I think the good news on it now it's ordinary course. I just wouldn't assume we could drive to below that 86% combined ratio and sustain it. That would not happen, I don't think.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. Are there any other questions? The gentleman up here. Hold on, let's just get you a microphone.

Audience Question

When you see – you have the opportunity to kind of if you are doing better than 86% to 90%, do you accelerate your investment into technology upfront when you start seeing some slightly more tailwind towards profitability? And how do you kind of keep doing your expense investments up and down when you go through those cycles of better profitability versus otherwise?

Alan B. Colberg, Assurant, Inc.

No, it's a good question. Partly why the range is 4 points, that as you think about $1 billion plus business, that's a fairly wide range. We're doing that for a couple of reasons. One, just there's natural volatility. But we definitely – if you think about the investments we're making these are multi-year investments. We don't have a great ability to like ramp it up or ramp it down because for example we're converting a client we have to go work with that client. They have to dedicate their resources. So our ability to on the big things to move it meaningfully around is not very high.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. We have a question from Heather, in the front.

Audience Question

Could you size the seasonality in the Lifestyle business, how should we model that?

Alan B. Colberg, Assurant, Inc.

Yeah. We've never really done that. I mean you can look at the last few years and look at the second half versus the first half. And you can have a feel for the kind of seasonality we have in the business. But it's not a perfect because it depends on how much, for example, if we're going to launch two new programs this year versus one last year is an example about that will have a different effect on earnings. So unfortunately I can't give you a great answer on that other than, look at the last few years and that at least directionally gives you a feel for how the second half might be compared to the first half.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. Are there any more questions, right now? Okay, well I'll leave a little bit of time at the end just in case if there's any last questions. All right. So we have Dorian out in the Atlantic. So let's I guess talk about your reinsurance program. I guess what changes did you make this year and what were the pricing trends that you experienced?

Alan B. Colberg, Assurant, Inc.

Yeah. First I would say our thoughts are with everybody affected by Dorian, right, and so our business at the end of the day we are going to be there and we will meet all those obligations, so we're more focused on that than anything. But from our economic point of view, the positive is this year we took another big step down in how much risk we retain in the event of a catastrophe. So with our completion of the renewal in July we're down to $80 million per storm. So if you think about that, almost no matter how bad Dorian is, our maximum loss is $80 million pre-tax. If you go back four years ago, our loss would have been maximum $240 million. So we've dramatically lowered our retention. Now that comes at a cost, all right, we had to buy more reinsurance. One thing we've done there is we've gone to much more multi-year reinsurance. I think we're up to 35% of our

reinsurance tower is in multi-year which really smooths out the cost. But with all that said, for the 2019 placement if you risk adjust, so if we hadn't gone to the $80 million, our price effectively was flat.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay.

Alan B. Colberg, Assurant, Inc.

So we tend to do better than the market. Our program is stable. We've had the same reinsurers for a decade. They know us well. And also the multi-year smooths it out. The other thing often on reinsurance, it doesn't really – it's like the discussion a minute ago on the 86% to 90% combined ratio. If reinsurance rates were to go up, we'll put it into the next rate filing. So, the only effective reinsurance changes is a bit of a lag into the rate filing, but again our experience this year was flat even in a slightly harder market.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Got it. And would there be any potential reinsurance enhancements you'd want to make in the future or maybe slightly lower retention than what you have? I guess, can you walk us – just how did you get to the $80 million and then…

Alan B. Colberg, Assurant, Inc.

Yeah. So, we've been on a journey, if we look at what do we think has held back our stock over time. One of the drivers is cat volatility we believe. And so, we've been on a journey to reduce the impact of catss in our earnings. And there's a great chart in our Investor Day, which shows if you go back five years ago, if we had a really terrible storm season, we would have broken even our lost money for the whole company. Now we can have a really terrible storm season, and we'll still retain I think about 40% of our earnings in the worst season you can imagine. And we continue that journey, and whether we're lower from the $80 million or not, I don't know but each year we're going to reassess it. The important thing though as you think about our company now we have substantially more earnings today than we had four years ago and all of that growth has been in businesses that don't have cat exposure. So, forget the fact we've taken retention way down. We've also grown substantially the portion of the company that doesn't have cat exposure. So, even today our – percent of our earnings that are cat exposed is well under half. So that journey continues. But we feel like we've made good progress and it's just being economically consistent and smart about it.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Got it. Very helpful. I guess switching to capital management, I guess can we just talk about 2019 capital management plans, the reminder of the year, how you're thinking about – just how you're thinking about dividends, repurchases, things like that just for the current year?

Alan B. Colberg, Assurant, Inc.

Well, I'm going to answer it in the longer term.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay.

Alan B. Colberg, Assurant, Inc.

Because we don't focus as much on the short term as everyone else does.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay.

Alan B. Colberg, Assurant, Inc.

If you look at our Investor Day commitment, what we said is a couple of things; one, we continue to have businesses that if we earn a dollar of earnings in any of our legal entities, on average we can upstream that to the holding company. That is not typical for most of the businesses that we play in but it's because we have a mix of services, not just insurance, it's that more than insurance in our business. So we're fortunate in that whatever we earn we expect the upstream. If you look at the next few years, we have pretty strong growth. We have good earnings today with strong growth. What we said is we expect to return roughly 75% of any capital that's available back to shareholders through the form of dividends and repurchases. So at Investor Day, we put out a commitment of $1.35 billion of return 2019, 2020 and 2021. Now that we will not necessarily be linear across those three years, because we're growing across those three years. So if you think about 2019 in that context we bought back $100 million in the first half of the year. We were continuing to buyback through cat season, which is something we've now done the last few years because our risk profile is quite different. We do buy always via 10b5-1. So there is limited ability to ramp it up or down. So we put those programs in place when we're not blocked out. So without answering your question, the rest of this year we feel good about the long term commitment that we'll return $1.35 billion to shareholders, and that's roughly one-third through dividends and two-thirds through repurchases over that three-year period.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Got it. It's very helpful. And then if you're – if lender-placed starts to grow, and that's more capital intensive how should we think about how could that impact your capital management plan?

Alan B. Colberg, Assurant, Inc.

Well if lender-placed grows, we'll have more capital available even if we have to hold capital at this point in growth, the growth will be better than the capital we have to hold. So we'll have more excess capital if lender-placed grows.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. So capital wouldn't be a constraint or anything like that, okay. Got it. And then I guess aside from repurchases and dividends, can you talk a little bit about inorganic growth within the context of Housing and Lifestyle separately, I guess just how are you looking at those different value streams and where could M&A help you accelerate the current strategy?

Alan B. Colberg, Assurant, Inc.

Yeah. Let me start with The Warranty Group because that was a very unique situation. So if you look at our M&A history, we've mostly done smaller deals and those deals tend to be capabilities we can bundle into our product, they could be geographic depth in markets like we did in the U.K. with LSG a few years ago. The Warranty Group was a big deal and it was fairly unique. It was unique because we directly overlap with them in every business they were in, not just in the businesses but also the geography. So I think of it, The

Warranty Group, the reason it's been as successful as it's been, it was a giant tuck-in is the way to think about it. But we have a very high hurdle on M&A because the risk profile of M&A is obviously much higher than just regular investments or return of capital. With that said, we have three really strong growth businesses that have double-digit earnings growth potential; mobile, auto, and rental. If we can find good tuck-in acquisitions, I don't think there'll be anything quite as big as The Warranty Group, but if we can find things that fit into those businesses that either give us additional capability we can bundle into our product, give us depth in the key markets we're in. Think about Japan, you know we are ramping Japan dramatically. And if we could find a nice little small acquisition in Japan, we'd do that in a very quick process. But think of it is the M&A will be really in those three value chains, primarily it will be smaller, it will be capability, it will be a geographic depth, it could be tuck-in. I wouldn't see us putting a lot of capital into the risk businesses through M&A. If we could find another block of NFIP flood that we could roll in, we've done three of those in recent years. Those are pure tuck-ins that are accretive right away. So if we can find little things like that we might do it in the more traditional risk businesses, although flood is not a risk business for the NFIP, but that's how we think about it.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. And are there like specific financial metrics that you have to kind of look at in terms of just I'd have to check the – it has to check like these two or three boxes before we'll...

Alan B. Colberg, Assurant, Inc.

Yes, so we really look at a few things. One is the IRR needs to be significantly above other alternatives, right. So we have a much higher hurdle rate for M&A. And second, if you look at The Warranty Group we were able to say that deal was modestly accretive on a very quick timeframe. And we look at accretion/dilution significantly. So we wouldn't do a deal that was dilutive in a meaningful way.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. Got it. Now we have a few minutes left, I'd like open it up for the audience. The gentleman right there for – if you could. Okay.

Audience Question

Hi, thank you. Alan could you describe the catastrophe risks like what lines of business when we have a hurricane, we got flooding in Florida, what are the types of claims you're getting? I wouldn't think of this business as a big catastrophe type business. So I was a little bit surprised by the hurricane discussion probably due to my lack of knowledge about your business, but so could you just talk about that and give some examples of cat risk? Thank you.

Alan B. Colberg, Assurant, Inc.

Yeah. So, the only place we have meaningful cat risk is in the housing business and it's really on a couple lines of business so one lender-placed homeowners, that's the one where we track 35 million mortgages and then we're effectively the insurer backstop for the industry. So we write a homeowners' products, so that comes with wind damage, et cetera. And then we do flood on lender-placed as well. So if the lender requires flood and it's not in the government zone, we'll provide that flood outside of the government zone. We also have a manufactured housing business, similar we're embedded in the origination of most manufactured housing sold in the U.S. and that has exposure. But the important thing about the cat exposure is with the reinsurance program now that we're down to that $80 million pre-tax per event. So we've managed to – because we – at the end of the day we still like those businesses, right, they earn us 17% to 20% ROE with a

normal cat load. That's a pretty attractive set of businesses. But it's really that piece of housing that has the cat exposure.

Christopher Campbell, Keefe, Bruyette, & Woods, Inc

Okay. Great. We probably have time for one more question in the audience if anybody wants to. Okay. Looks like we don't have any more questions. Well, thank you Alan, for joining us. And...

Alan B. Colberg, Assurant, Inc.

All right. Thank you everyone. I appreciate the interest in Assurant. And Chris, thank you.