Morgan Stanley Virtual U.S. Financials Conference
Fireside Chat Discussion

PARTICIPANTS

Corporate Participants

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

Other Participants

Mike Phillips – Analyst, Morgan Stanley & Co. LLC

Opening Remarks:

<Mike Phillips - Morgan Stanley>: Okay. So, good morning, everybody. This is Mike Phillips going on the line from Morgan Stanley Equity Research, and I run the US division of our research team on the property and casualty side. So, thanks for joining us this morning. The next two days should be fun and eventful, lots of companies presenting and along with a few fireside chats that I'm hosting and this would be the first.

So, we're going to kick off the day with the fireside chat from Assurant. Before we get into it, I do have to read one disclosure and then we'll get started, that is for important disclosures, please do see the Morgan Stanley research page at www.morganstanley.com/disclosures. And any questions, please do reach out to your sales representatives.

So, thanks for that. And with that, we have the pleasure this morning of kicking off our conference with the fireside chat with Assurant, and President and CEO, Alan Colberg. So, with that, him and I will have a nice discussion for the next about 25 to 30 minutes. So, first off, thank you very much everybody attending and thank you, Alan, for participating this morning.

<Alan Colberg - Assurant>: Mike, thank you for hosting us and looking forward to the discussion.

Question & Answer Discussion:

<Q - Mike Phillips - Morgan Stanley>: Thanks. This should be fun. So, I guess Alan, I've got a few questions to go through over the next about a half hour. Maybe before we get into any specific questions about your company, just maybe a bit of a brief overview, if you want, of Assurant and its strategy, might be a good place to start.

<A - Alan Colberg - Assurant>: Sure, happy to do that. So, over the last five years, we've really focused Assurant around major consumer purchases in partnership with the world's leading consumer brands and we're really providing more than insurance. We're really helping to manage and grow and deliver superior customer experience through innovative offerings. The result is, today, we have a leadership position across every market we play in. We're basically number one or number two in anything we're now doing.

We have basically an installed customer base business. We have close to 300 million or a little bit more than 300 million customers worldwide that creates a really sticky earnings base.

And if you think about our businesses and step back, we now have three segments that we operate in. Together, they've delivered very strong profitable growth. For example, our NOI was up 11% last year. We continue to have strong cash flow. And if I really simplify our portfolio today, we have two risk businesses in Global Housing and Global Preneed that deliver better than market ROEs. And then, we have a growth engine around the future in Lifestyle around the growth of connectivity around the car, the device, whatever it might be, we've now been growing NOI in that segment double-digits for the last seven years on average. So, we feel very well-positioned both during this crisis and then longer term.

<Q - Mike Phillips - Morgan Stanley>: Great. That's a good overview, Alan. I guess, we can't go a second without the headlines and talk about the current environment, and certainly, the pandemic with COVID. So, maybe in the current environment, how are you guys managing, any impact from that?

<A – Alan Colberg – Assurant>: Yeah. No. Certainly, like all companies, COVID-19 does create some challenges and some opportunities. We're fortunate we entered with very strong momentum. If you looked at our Q1 earnings, I think we grew something like 20% year-on-year. So, we entered with all of our businesses performing well. If you look at Lifestyle, we have a very installed – a significant installed base. We've got 54 million subscribers that's a recurring revenue stream. And what we've said is, even in a COVID-19 environment, we still expect to grow subscribers this year, really because the programs that we started over the last couple years aren't yet mature and we're going to continue to add customers, even if sales are slower than they might have been without COVID. So, there is some impact in the rate of growth, but we still expect to grow subscribers.

The piece of the mobile business that's had the greatest COVID-19 impacts is repair and logistics. And if you think about the second half of March and a lot of April, the stores were just closed, and so there was really no opportunity for consumers to trade in a phone and we make money every time we touch a phone. So, that's really more of a timing issue. Those phones are still in the environment. They're going to come back in at some point. We just don't know if that's going to be recovered fully this year or whether that's a future recovery of that volume.

If you go to auto, another very large installed base. They have about 48 million covered autos today. Those are largely embedded earnings and those are contracts that have already been sold and they're going to start to earn. If it's new car warranty, they earn three to five years after we sell it. If it's a used car, it earns much more quickly. So, again, we may not add as many new contracts this year as we would have without COVID-19, but we still expect kind of strong results out of the auto business even in this environment.

If you go to housing, we have a business in lender-placed homeowners where we track 32 million mortgages. That business is very countercyclical. So, it grows when the housing market weakens. We don't expect that in 2020, particularly with some of the interventions by the government and mortgage market. But it is a potential significant growth driver for us if the economy weakens in 2021 and beyond. Renters is another important business for us, definitely seeing some impacts from COVID-19 in the short-term, that business we've been growing about 10% a year in the policy count. And if you go again to the first part of the COVID crisis, people just didn't move. So, if no one's moving, we don't have a chance to sell them new policy.

And then finally, our Preneed business, not really having great impacts from COVID-19, we don't really have a mortality issue. We don't – it's a shorter duration life product. We don't write in the New York state for example. We are seeing slower new sales, just like we're seeing across all of the channels, which has some

longer-term implications, but again we feel well positioned. So, we've really been focusing on what are some of the permanent disruptions we see coming out of COVID-19 and how do we invest wisely during the crisis. And a good example is digital where we've already been investing in digital for many years. We're actually increasing our investment in digital, because we see an acceleration of that as an outcome of COVID-19. So, overall, I think we feel good, although, certainly we'll have impacts in 2020 as most companies, and over the long-term, our business will be just as strong as it was pre-crisis, if not stronger.

<Q - Mike Phillips - Morgan Stanley>: Okay, great. That's helpful. I guess, with the COVID backdrop you guys, like many companies, have suspended your outlook for 2020 and maybe if you could walk us through your rationale for doing so and maybe when you could think you could provide an update on the outlook for 2020 now that you've suspended things?

<A - Alan Colberg - Assurant>: Yeah. Mike, no, I appreciate that. I want to be clear. We suspended the outlook not because we thought our business was going to be fundamentally impacted. It's that nobody knew and we didn't know what might happen with COVID-19. If you recall our earnings were early in May. We were about maybe six weeks into this crisis, really unclear. And so, we just thought it was prudent to suspend the outlook until we all had a better sense of the length and breadth and duration of the COVID-19 impacts. We've been monitoring the macro trends and we'll certainly provide an update, and there's a good chance with our Q2 earnings call in early August, we'll be able to provide an updated outlook on 2020. And barring any kind of major developments in COVID-19, I think we're on that path.

Leading up to our earnings call, we really had – it was a challenge, because there was so little data on what might happen. What we've now seen through May and into the early week of June here is the trends are beginning to stabilize and moderate. Most of our indicators that we track like new sales are still below pre-COVID levels, but they've recovered dramatically from where they were at the depths of the COVID crisis in the second half of March and April. So, as we think about looking forward, we're going to focus first on being able to reinstate kind of an outlook for 2020, and then we'll provide an update on our longer-term objectives as this year plays out.

<Q - Mike Phillips - Morgan Stanley>: Okay, no, great. That sounds helpful. As maybe then, you did comment at your Investor Day last year, how should we think about those commitments today?

<A - Alan Colberg - Assurant>: I think if you look at our commitments that we've made at Investor Day, we said over a multiyear period, we could grow operating earnings on average 10% per year or even slightly higher. We delivered that in 2019. We'll see in 2020, this will be a year where COVID impacted the growth rate to some degree. But longer term, we don't really see anything structural that would cause us to think that our business won't continue to perform as we thought, and the same with strong capital return. We've made a commitment over time that we're going to return 75% of our available capital of the holding company to shareholders in the form of dividends and buybacks. We did that last year, and certainly over time, we don't see that changing either. So, we're all navigating the COVID-19 impacts in the short-term, but our franchise was strong and it remains strong and I think it will be even stronger over time.

<Q - Mike Phillips - Morgan Stanley>: Perfect. Thanks. You mentioned some capital management there. So, you did make a decision to slow and maybe pause your buybacks, and drew down on your $200 million revolving credit facility recently. So, can you speak to was that due to any specific capital returns there?

<A - Alan Colberg - Assurant>: So, what I'd clarify is that was very much aligned with our decision around suspending the 2020 outlook. And at the time we took those actions, it wasn't because we had any real concern about our capital position. It was more like nobody knew what was going to happen. And so, we did the actions we took out really of abundance of caution. If you think about the 2008-2009 crisis, cash is always king in the crisis, and although we are well-capitalized, we just thought it was prudent to go ahead

and draw on the revolver partially. We drew $200 million out of our $450 million commitment, but we have no plans to use that. It was just being prudent and conservative.

And if you look at our balance sheet, we do feel like we're in a strong capital position. If you look at our legal entities in our subs, if you look at year-end 2019, our RBC in our P&C entities was 481%. RBC in our life and health entities was 686% and that didn't really change in Q1. So, we ended the crisis very well-capitalized in our subs. We have significant ordinary dividend capacity. We also have significant dividend capacity out of non-regulated entities. If you look at our business, we now have a significant portion of our growth has come out of fee income and products and services aren't part of our regulated entities.

We remain committed to our investment-grade rating. That's a differentiator for us as we go to market and compete in various markets around the world. And we've really been committed to a sustained capital return to create shareholder value. Since our IPO, we've repurchased now 63% of our shares over the last 15 years. We've raised our dividend every year since our IPO in 2004. We have a high quality investment portfolio that's very diversified, largely investment-grade fixed income. And so, when we look at it, the decision to slow and pause was just out of an abundance of caution. But as we get greater clarity around COVID-19, I don't think anything changes in our long-term commitments around our ability to generate cash flow and then return the excess cash flow to shareholders.

<Q - Mike Phillips - Morgan Stanley>: That's great. Thanks. Maybe if we could do a little dive into some of your segments then, next on the Global Lifestyle, there the growth has been kind of largely driven by your mobile business. So, maybe if you could remind us about some of your new clients there, I guess maybe your new business pipeline, and maybe even I guess the timing or path for some of the new programs in the mobile business?

<A - Alan Colberg - Assurant>: Yeah. No. We're very encouraged by the progress over the last really now seven, eight years in the mobile business. But 2019 was a record year for us in mobile. We grew earnings by 37% in that segment last year and what's really driving it has been two things, one, its continued depth and strengthening of our long-term partnerships. I'll give you a couple examples of that. If you look at T-Mobile, we announced last year that we were fortunate to pick up the balance of their program we didn't have, which was Metro by T-Mobile. And over the years, we've continued to add more products and services into our bundle. And today, for example, I think we, on average, have about six different products and services, and that's been a real growth driver. So, one big driver has just been doing more with our current clients.

But then, over the last few years, we've had enormous success in the market. We've announced that we've launched 10 new mobile programs over the last two-and-a-half years now. Examples are our first-ever program with Verizon in the US where we're now partner with them on their billable prepaid brand, the launch with KDDI in Japan around all of their Apple products. We've been very focused on new entrants in mobile and the growth we've seen with people like cable providers, where we've announced that we won the business to support the mobile programs like Comcast and Charter. More recently in Japan with the launch of a new national carrier, we announced that we were chosen by Rakuten really because of our innovation in digital capabilities.

So, if you look at mobile today, we're up to about 54 million subscribers globally. That number has grown about 50% since the end of 2017, that's 50%. And as I said earlier, we expect that continue to grow this year. Some of the big initiatives that we've been focused on are continue to enhance our self-service capabilities, so consumers can get their problems addressed however they want to get it addressed. We've been building out dynamic claims fulfillment which is all around getting a faster claims resolution and a better customer experience, and we've been investing in our IT and technology. So, the good news in mobile, hopefully, we'll sell some new programs even this year. But even if we didn't start another new program this year, we're going to grow and we'll continue to grow into 2021, not just from the programs

that we've maturing, but also from driving more of our products and services into all of these programs we now have.

<Q - Mike Phillips - Morgan Stanley>: Okay. Perfect. I guess, let's stick with mobile for another second, if we could. So, how do we think about the revenue stream that you see there from your covered mobile device accounts maybe as compared to your device trade-ins?

<A - Alan Colberg - Assurant>: Yeah. That's a good question. So, the 54 million covered mobile devices, that is the biggest driver of our economics, because for every one of those devices we have, at least some of our products and services are in a recurring revenue stream model and the bulk of our revenue today comes from the device protection and some of the various fees that are paid for some of the services. Trade-in is one of our products and services. It's one of the seven. If you look at our economics today, if you look at the segment fee income, roughly 40% to 60% of our segment fee income, roughly that's about $100 million to $150 million per quarter last year is from trade-in. So, that gives you a sense of the size of that business for us and that's been the piece that's been most impacted by COVID-19, just people haven't had a chance to go in.

We are starting to see some recovery. Most of the stores are now reopened. I think something like more than 80% of our partner stores are reopened in the US for example. But the second and third quarters tend to be softer in that business anyway. People are generally waiting for new phone introductions which tend to happen in the fall. So, for us, when we look at the impact there, it's really a timing issue. Those phones are still going to come back into the stores at some point. We just don't know if it's – the volume that didn't happen in March and April and the lower volume in May, is that going to be recovered later this year or is that going to be recovered in 2021. But we feel well-positioned and expect that that business will continue to be an important contributor even if it's a little bit softer during the short-term during the crisis.

<Q - Mike Phillips - Morgan Stanley>: Okay. Perfect, Alan. Thanks. I guess, maybe we could switch over a little bit to your auto side and there given the recent acquisition that you did, maybe remind us of how the global auto earns and maybe what gives you the confidence in just the long-term growth of that business?

<A - Alan Colberg - Assurant>: Yeah. Maybe I'll start just briefly on the acquisition that we announced in early May of AFAS. And really if you step back, prior to our Warranty Group acquisition in 2018, we were one of the global players around auto, but we were not the market leader. The clear market leader was The Warranty Group. And with that purchase, we became the market leader. So, I'll come back to that in just a minute. But as the market leader, we now have really the best platform in the industry in terms of scale and capability, and AFAS is a company that we know very well.

They've been a long-term partner of ours and we were able to, over a period of a year-plus of discussion, really get to a strategic deal for us that had attractive valuations relative to recent deals have been done in the TPA space. And AFAS brings us another 2 million covered autos, but also brings us really state-of-the-art talent and dealer training programs which we can complement into our programs and then drive as a differentiator across the rest of our portfolio. Not significant to 2020, but for 2021 and beyond, adding AFAS into our portfolio really further enhances our market position, gives us more scale and should deliver additional profitable growth over time.

So, if you go to auto more broadly, today we have roughly, call it, 20% to 25% market share in the US and North America. That makes us the market leader in what is still a very fragmented market. So, we're really focused on what are the things we can do that differentiate us and allow us to gain share. And we've added – for example, since we closed the TWG acquisition, we've added about 10% to our covered auto count as we continue to gradually gain share and that business is pretty well insulated from short-term economic shocks. So, if you look at most of the 48 million policies, some of those aren't even earning yet. If there are

new car, we would have collected the premium when the new car was sold and then it sits on our balance sheet as UPR until the car goes out of the manufacturer warranty. So, we're going to have pretty significant embedded earnings from what's already been sold in past years.

Now, we see a slowdown in new car sales or used car sales. In the short-term, we're going to add fewer policies again. So, that will cause some slowdown in growth relative to what we might have seen otherwise. And the car dealers were pretty severely affected in the early days of the crisis. If you look at kind of what happened in the first six weeks of COVID, most car dealers were closed for new car and used car sales. But when we look at it, again, we'll have some impact in the short-term. But long-term, we're really well-positioned and that comes from two fronts. If we go into kind of any sustained economic downturn, we'll grow faster, because we'll sell more on used cars. And for us today, our mix is roughly 50/50. New sales are on, either used cars or new cars, but used cars earn generally much quicker. We could offer right away if the underlying warranty is gone. So, that tends to actually help our results in the downturn.

And the longer term, the real driver of The Warranty Group acquisition is if you think about the car and you fast forward to a world of 5G and connectivity, the car really just becomes a big connected device. It will be continuously connected at all times and we're one of the global leaders around keeping consumers connected in getting value. So, we're really excited about the longer term the opportunity to leverage some of our capabilities from mobile and combine it into auto, and really differentiate what we're doing and drive share gain in auto.

<Q - Mike Phillips - Morgan Stanley>: Okay. Perfect. Thanks. Maybe let's move over to your other segment, lender-placed, that segment is poised to perform pretty well if there is a long-term downturn or a recession. So, maybe if you could discuss the near-term trends there in that segment for lender-placed or maybe even how we should think about the long-term growth of that business as well?

<A - Alan Colberg - Assurant>: Yeah. So, I think that franchise is in a really good position today. Over the last five years, we've been building on and investing in differentiating our offering even further. You've heard us talk about our customer platform that we're rolling out called SSP. And the result of all those investments is we've now renewed the vast majority of our track loans over the last 12 to 18 months. So, we're very well-positioned going into what could be a housing market downturn. What we do is we provide a critical backstop both to homeowners and then to mortgage industry that really provides downside protection and helps keep the mortgage market functioning if the economy weakens.

Now, we don't see that happening in 2020 in any significant way. The mortgage market moratoriums will delay us to potentially having new policies and we don't really see any significant change to placement rate happening in 2020. And as we've said that business through the combination of our expense management, through our ability to work ordinary course on the rates of the product, it will be roughly flat in a strong housing market, but we'll grow significantly if the market weakness.

Now, our upside tends to lag, most of what we write in the downturn is on homes that are into seriously delinquent foreclosure, so there's a delay. So, if we do see weakness in the housing market, our placement rate growth would most likely occur in 2021 and beyond. The situation heading into this crisis is a little different than we have one versus 2008-2009. The quality of the portfolios is better. So, I don't think we'll see anything like what we saw last time where our earnings went up by hundreds of millions of dollars a year, just because the market was so impaired. But I do think we are well-positioned to have a significant growth if the housing market weakens. So, it's a very important countercyclical kind of hedge in our business portfolio.

<Q - Mike Phillips - Morgan Stanley>: Okay. Perfect. Thanks. Let's turn to reassurance for a second. There, we've – as I think, as you are certainly aware, the market has hardened a bit in reinsurance. Maybe given that backdrop, can you updates us on your program for 2020 and I guess maybe just the potential impacts you might see to increase pricing there?

<A – Alan Colberg – Assurant>: Yeah. No, interesting times, in many markets, as a result of what's happening. For us, the first thing is that we had already replaced two-thirds of our program for 2020 back on January 1. So, we only had the final third to place which we did last week, June 1. Importantly, we're maintaining our per event retention at $80 million. So, that means per every strong event, we have $80 pre-tax exposure. As a reminder, that's down dramatically from a few years ago when we were at $240 million. So, we feel like the $80 million is an appropriate position to be in. Over the last few years, we've been on an initiative to really build multiyear layers into our tower and we're approaching half of our tower now as multiyear, some of that's two years, some is three, some is five. That also insulates us from any market rate changes that might happen.

Now, we are seeing hardening of the market as everybody is reporting and we'll be putting out our annual kind of full review of our program in the coming weeks, but I feel good about where we are. We've got great relationships with 40-plus reinsurers that are all rated A- or better by A.M. Best. We tend to be one of the better risk for them, our historical payments in the low and just the nature of our portfolios they look different. If you look at Jan 1 placement rates, if you read the press, we're up 5% to 10%, now we were on the low-end of that. We would expect placement rates will be – our rates will be up higher for June 1, but again we expect to be materially lower than what you're seeing in the market, just again recognizing our multiyear as well as the quality of our partnerships with our reinsurers.

<Q - Mike Phillips - Morgan Stanley>: Okay. Thanks. That's helpful. I guess if we can move over a bit to the multifamily housing. So, maybe there is a little bit of risk from COVID-19, but the segment I think has certainly shown some great growth in recent years. I guess how do you think about being able to grow that segment over the long-term even during perhaps the recessionary times?

<A – Alan Colberg – Assurant>: No. It's a good point. We have averaged roughly, call it, 10% policy growth in recent years per year and we see that continuing. We have great partnerships with 9 of the 10 largest property management companies in the US. We have other channels like our affinity channel and the attachment rate or penetration is still relatively low for that product. So, we are in the middle of rolling out, what you've heard us talk about called Point of Lease which, again in the short-term, that's kind of slowed down just because the probably management companies are focused on the impacts of COVID-19. But over time, given the strength of our partnerships and given our new technology we're rolling out, we still expect to grow that business at levels like we've talked about historically.

Now, with COVID-19, the challenge has been people didn't move, right. So, and if you look at the first six or eight weeks of the COVID-19 crisis here in the US, people just didn't move. So, we don't have a chance to selling new policy. We're starting to see movements pick up in May, but still down from pre-COVID-19 levels. So, growth will definitely be impacted in the short-term as people don't move. But longer term, we expect to grow from the share gain attachment. And then also, if we do have an economic downturn, this is another business that tends to grow in a downturn. And what happens is people are more likely to rent than own and we saw that in the last recession. So, again, we would expect good growth in the years ahead, although, again in 2020 we may see some impacts.

<Q - Mike Phillips - Morgan Stanley>: Okay. Perfect. Thanks. Looking at the time, so we're coming up on our allotment time, so maybe I'll throw one more at you if I could and maybe on your investment side. Your portfolio did pretty well in the first quarter. Could you talk a little bit about your exposure there to, I

guess, the shrilling sectors and maybe help us understand your CLO exposure? And I guess also how do you think that portfolio, how do you expect it to perform in this current low interest rate environment?

<A - Alan Colberg - Assurant>: Yeah. So, our investment portfolio has had a good history of performing well in difficult environments, if you look at the last crisis in 2008-2009 as well and why, it's because it's a very high quality portfolio, 95% plus is investment-grade and when we sell policies, we match the duration of the liability with the asset. And so, we really don't have to sell, right. We can generally take an income approach which helps us a lot with stability.

If you look at the sectors that have been hit hardest by the COVID-19 and the market turbulence, our exposure is not significant. Across our portfolio, we have maybe 4% at most in energy and generally in the very high-quality energy names. We have 2% at most in retail. We have a low 1% in auto and airlines. We have less than 0.5% in leisure and travel. So, again, we could have some modest impacts, but we feel good about the portfolio.

If you look at CLOs, they're all nonrecourse and we had about $175 million of total exposure as of the end of Q1. And that exposure, we've been working to reduce and it's come down substantially since the end of Q1. So, we're working to strengthen our investment portfolio to be even more high-quality and we feel, in closing, really well-positioned to navigate the current environment given the duration of our portfolio and given our conservative low asset turnover business model.

<Q - Mike Phillips - Morgan Stanley>: Okay. Perfect. Alan thanks. I mean I think with that, we're at close to half hour, so I will wrap it there. I really appreciate your time and answers to the questions. It's very helpful. I hope the rest of the day goes well for you. I've got a lot of meetings to set up, so that's good, and we'll talk again soon. So, once again, thank you everybody and thank you, Alan, for your time.

<A - Alan Colberg - Assurant>: All right. Thank you, Mike, for hosting us and talk to you soon.

<Q - Mike Phillips - Morgan Stanley>: You bet. Thanks, Alan. Talk to you guys soon.