Assurant 2019 Investor Day Transcript

PARTICIPANTS

Corporate Participants

Suzanne Shepherd, *Senior Vice President, Investor Relations*

Alan Colberg, *President and Chief Executive Officer*

Richard Dziadzio, *Chief Financial Officer*

Bob Lonergan, *Chief Strategy Officer*

Mike Campbell, *President, Global Housing*

Kathy McDonald, *President, Global Specialty*

Keith Demmings, *President, Global Lifestyle*

Francesca Luthi, *Chief Communication and Marketing Officer*

Manny Becerra, *President, Wireless, Connected Living*

Kunal Malhotra, *Vice President, Global Specialty Innovation*

Paul Sims, *Senior Vice President, National Automotive Accounts and Digital*

Conference Participants

John Nadel, *UBS*

Chris Campbell, *KBW*

Vincent D'Agostino, *T. Rowe Price*

Jacob Feinstein, *Samlyn Capital*

Mark Hughes, *SunTrust Robinson Humphrey, Inc.*

Gary Ransom, *Dowling & Partners Securities, LLC*

Alan Danzig, *Lord Abbett & Co., LLC*

Scott Scher, *LMJ Capital, LP*

Michael Phillips, *Morgan Stanle*

PRESENTATION

Suzanne Shepherd:

All right, well, good morning. Welcome to Assurant's 2019 Investor Day. I am Suzanne Shepherd, Senior Vice President of Investor Relations at Assurant. I would like to begin by thanking you all for joining us, both here at the Stock Exchange in New York, as well as those listening on the webcast.

As you may have seen, this morning we issued a news release outlining that today we will update you on our long-term strategy as well as the long-term financial objective. During our presentation, we will speak to forward-looking statements and our actual results may differ materially. Please check out our SEC filings for factors that may impact those statements.

In addition, non-GAAP financial measures are important in evaluating the Company's performance. Comparable GAAP measures and a reconciliation of the two can be found in our presentation materials.

With that aside, we've got a jam-packed agenda for you today, and we're excited to talk about what we've done and all those accomplishments since our 2016 Investor Day, as well as the opportunities that lie ahead.

Today you'll hear from many members of our Management Committee, including Alan Colberg, our president and CEO; Richard Dziadzio, our Chief Financial Officer; Bob Lonergan, our Chief Strategy Officer; as well as key business leaders: Mike Campbell, President of Global Housing; Kathy McDonald, President of Global Specialty; and Keith Demmings, President of Global Lifestyle.

In addition to our presentations, we'll also host a discussion around innovation which Bob will moderate, along with a few key subject matter experts from across the organization. We'll have plenty of time for Q&A, both in the morning and in the afternoon.

In addition, for those who are here joining us in person, we are showcasing many of the key technology platforms related to our Connected Living and Global Automotive businesses. We believe these truly will help to bring to life what we've done to evolve our offerings beyond insurance. I encourage you to check those out.

In addition to our speakers, we also have several Management Committee members that I'd like to introduce. They include Gene Mergelmeyer, our Chief Operating Officer; Carey Roberts, our Chief Legal Officer; Robyn PriceStonehill, our Chief Human Resources Officer; Tammy Schultz, President of Global Trainees; and Keith Meier, President of International. Thanks for being here.

Before we get into the program, I would like to say a huge thank you to the Investor Relations team. They've worked tirelessly over the last few months to make today possible. Thank you to Francesca Luthi, to Sean Moshier, Matt Cafarchio and Vashti Johnson, as well as our broader Communications and Marketing colleagues.

Today is our eighth Investor Day. It also this year marks our 15th anniversary as a public company, that started right here at the New York Stock Exchange, and we have evolved quite a bit since that time and navigated through lots of change. We've helped to evolve our organization and helped our clients to see further, get there first, and adapt as they go.

Today you'll hear about how we're continuing to transform the organization and what we've done over the last three years, and really, more importantly, what we're doing to continue to innovate, to deliver value to our clients, our customers, our employees and our shareholders, and, ultimately, how we're going to deliver sustained outperformance for the future.

It is now my great pleasure to turn the program over to Alan Colberg, our President and CEO. Alan?

Alan Colberg:

Thank you. Thank you, Suzanne. I want to extend my thanks as well to our IR team. As you all can probably appreciate, get ready for an investor day is a major undertaking and they've done a phenomenal job. I also want to thank our over 14,000 employees. You will hear about our journey over the last couple of years and where we're going. We've really changed this company, and it's the employees every day who make that happen.

Then, finally, to our investors and people who are interested in Assurant, we appreciate the interest and always available to talk about what we're doing. We're very proud of what we're doing and happy to share that story.

It's appropriate, as I look around this room—this is a really interesting venue. It's called Freedom Hall. As Suzanne said, we've now been public for 15 years, so it's kind of nostalgic to be back in this venue, but it's really an appropriate venue for this meeting. This was originally a luncheon club in the 1800s for the traders at the New York Stock Exchange, and they would gather at lunch and talk about the companies that they were following and what was going on, and which ones were doing well and which ones were not, and that's how we're going to spend our time - give you a sense of what we've done, where we're going, and so it's a great venue and we really appreciate the opportunity to host it here at the New York Stock Exchange.

Let me start with 'What is Assurant?' and it's hard. I was talking to many of you as you were coming in that we're not a typical company. We're not a traditional insurance company; we're much more than that as a company. We're not really a business services company; we're much more than that. The way we think about it is we've built a compelling portfolio of really three businesses that all contribute to a very unusual company.

We have two risk businesses, in Housing and Preneed, that you'll hear about that are better than their competitors, and they're better than market because we do things in a different way. Then we have an extraordinary growth engine in Lifestyle which is really around the connected future, the connected world where we've been growing double digits for six years now, and we expect to continue strong growth in that business.

It's really a unique portfolio. That portfolio has outperformed and it's outperformed over the last four years, it's outperformed over our history and we'll talk a little bit about that today. We anticipate we can continue to do the right thing so that it will help continue that outperformance.

The way we think about our company today is really we have focused the company and we now partner with the world's leading companies in the middle, so the companies that are making a product for a consumer. We partner with those around the major consumer purchases. So, a consumer is buying a house, they're renting an apartment, they're buying a car, they're buying a device, they're planning your funeral. These are big ticket purchases by a consumer and they have to get value out of them.

Our history in innovation, one of the reasons we've done well is that history of innovation. We're now bringing far more value than just the traditional insurance product. You'll hear from an example in Lifestyle today from Keith, as we work with our partners, you might buy a handset protection product. We want you to have value as a consumer if you never use that. Even if you never use the underlying service contract or the underlying warranty, you get enormous value. The exhibits out there, if you haven't seen them, please go see them. We have Chad and Craig who lead up our technology efforts around our onboard technology for the car, and onboard technology for the phone, which really differentiate the consumer experience.

This is how we think about our company, kind of a leading provider around major consumer purchases, in partnership with the world's leading companies, and winning because we're innovating.

If you think about our history, and let me start on the left-hand side of this chart. We went public in 2004; since then, we've outperformed. The reason we've outperformed is on the left. If you think about our clients, we're gaining share. You hear Richard and I virtually every earnings call talk about another new partnership we've launched; somewhere in the company there's another important long-term client, and we're gaining share because we're making the experience better for the client and for their consumers.

For consumers, we've always delivered. We protect what matters most to them. We're there when something doesn't work, and so that's worked very well.

For our employees, we want to be the best place to work for our employees, and we've really worked hard on that. Some of the things we're doing right now, for example, we were one of the early companies to sign on to the CEO Action Pledge for Diversity and Inclusion, and really challenging ourselves to have a more diverse workforce that more mirrors our society.

We just got notified by the group that does the corporate equality index, we have a perfect 100 score on that index, which is around LGBQT, that community, and we're now 100% score. We're trying to enable and attract the talent that allows us to continue.

Then, for our communities, we have a foundation, as all large companies do, that gives money but our employees give a lot of time and effort, and then as a company, we've really been focused on this. For example, we repair and recycle millions of used cellphones a year, and keep those out of the landfill. We've been on a mission to become much more energy compliant and use less energy. We've reduced our energy consumption as a company every year for the last decade. We've really tried to make a difference across our stakeholders. That has been a big reason why we've outperformed, and it's pretty impressive when you look at it, if I say so ourselves. We've doubled the S&P 500 over a 15-year period; that's impressive. We've done it while maintaining a very strong balance sheet and maintaining investment grade ratings, so we feel very good about the outperformance. The reason we've transformed is the world is changing and we want to continue to outperform, and that's been the journey we're on.

That journey, we'll talk a little bit about it today, but when we reflect on the last three years, what's come out of those three years? Well, first, we've delivered results through the transformation. We've returned the company to profitable growth even as Lender-placed normalized. We've continued to have strong cash flow and we've outperformed the market over that four-year period.

Think about the future—and you'll hear this a lot today. We now have market-leading positions in very attractive businesses that are growing, from Connected Living to Auto to Lender-placed to Preneed to Multifamily. We have five, six of them. A few years ago, we really had one strong franchise in Lender-placed. It's a very different position to be in.

You'll hear from myself and from Richard how we've really changed our catastrophe exposure. We've diversified the earnings. We've taken aggressive action and we have far less exposure to cats than we have had in the past.

We have a really interesting businessin Lender-placed that we've now got the stability, and as you all know, if the market weakens for Housing, that business has significant upside. We don't—you'll hear our projections. We've considered nothing from that in the projections. We've assumed the housing market doesn't change, so that's just upside if we get a weakening housing market over time.

Then the hallmark of our company has been strong cash flow generation and disciplined capital deployment. It's been true for 15 years and it's not going to change.

That's kind of where we are after we've transformed.

I'll take just a minute on our journey. Many of you are very familiar with it, but 2015 was the year of kind of some big portfolio decisions; get out of Health, get out of Benefits. Sixteen was around we're a Fortune 300 company that had never operated that way. We were very decentralized, and so it was trying to unleash the power so we could facilitate investment and grow Connected Living. We could grow Auto. We could get expenses out, and Richard will cover kind of where we are with expenses and our progress over the last couple of years.

Twenty-seventeen was a really watershed year for us. The strong growth in the rest of the company more than offset the declines we had in Lender-placed, and we returned to profitable growth in '17. We continued that in '18 and made a very transformative acquisition in TWG(1) that is on track and actually a little bit ahead of what we've said in terms of timing, and really, it's enabled us to become a major player in Auto in a way that we couldn't have without that deal.

Throughout this period, we've really changed our investing posture. You'll hear from Bob and then from the Innovation Panel, we've spent a lot of time the last few years investing in AI, in digital, in data analytics, in new technology platforms like you can see out there. So, that's the journey we're on.

Where we now sit as we sit here in 2019, we feel really good about the foundation that's been built for the Company. For example, on this chart, if you go back to 2015, the blue is Lender-placed. Lender-placed in 2015 was more than half of the earnings of the Company. If you go back even a few more years, it was closer to 70% of the earnings of the Company. A very concentrated portfolio, that creates a lot of challenges.

We sit here today and with the extraordinary growth of the rest of the Company, you can see in the orange bars we've averaged 16% growth in earnings for the entire rest of Assurant if you exclude Lender-placed and you ignore The Warranty Group. That's extraordinary growth and testament to the momentum we have in the market.

(1) Throughout the presentation, "TWG" refers to The Warranty Group.

Then if you look at these bars, what we're most proud about as a management team is we've reversed the trend and we've grown the Company and we're growing the Company well, and that's a real different place to be in than our 2016 Investor Day.

One of the hallmarks of this company has been cash flow generation. Because we have a unique set of businesses we've been able, over our history, if we make a dollar in one of our operating segments, we're able to upstream that dollar, and actually, over the last four years we've upstreamed a little bit more than a dollar. That was helped by deferred tax liability with the passage of the tax cut, but our view hasn't changed. You'll hear from our team and Richard that we still expect on average if we make a dollar we can get that dollar up to the Holding Company and then we can deploy that capital in a disciplined way to create shareholder value.

We also generated about $1.5 billion in 2016 and 2017 through the exits of Health and Benefits, and if you look at our last Investor Day where we were committing to return $1.5 billion, that $1.5 billion was essentially capital freed up by exiting businesses. So, a good thing to do to return to shareholders, not a sustainable strategy. As we talk about our capital return today, it's from earnings, so it's a very different kind of capital return than what we had in 2016. And so, we feel very good about the cash flow and the fact that this will continue.

If we reflect for a minute on what we said in 2016 and where we are, a reminder there is those were objectives through the end of 2020, so we're kind of talking about this with almost two years left on those objectives, but the first one was growing net operating income. We've now done that. We've averaged 4% and we've said for 2019 double-digits. We've said, if you've looked at the press release, we can continue that double-digit earnings growth in '20 and '21. So, we've moved from a world where we were just trying to grow net income to one where we can consistently—now, maybe not every year it's double-digits, it could be some years a little higher, some years a little lower, just the nature of our business. But we can grow double-digits, so we feel very good about that one.

If you look at the EPS growth, we've put out a 15% annual growth in 2016. That was really largely driven by exits and capital return from Lender-placed normalization. If you look at where we've come, we're pretty close. We did only 1% in 2016 EPS growth; that was really the transition year where we were dealing with the Health and Benefits overhang. We were dealing with standing up new investments across the company. The last two years we beat our target – we were 22% EPS growth in '17 and 16% in '18, so we feel pretty good about what we've done there.

On the capital return, I already mentioned it. We were actually able—if you'll recall when we announced The Warranty Group deal, we said we would not repurchase in 2018. Through the ability to structure the deal differently through our capital management, we were able to get back in and resume repurchases in '18 even after we thought we weren't going to be able to in '18.

If you look at ROE, the last couple of years have had strong momentum in ROE. Sixteen didn't, where we had only 1% earnings growth or zero, very small earnings growth, you don't get a lot of ROE growth. Good momentum there, and what you'll hear Richard and I talk about there is we expect it to continue to move up, probably in a couple of hundred basis points over the coming years, but for the Company it's less of a relevant metric. We'll still disclose it, you'll see it in our financials, but it's not going to be one of the headlines for us. It will be for our risk businesses where we think it's very important that we manage them for return. But for the Company, we've got good momentum on that and you should expect to see it continue to trend up, even as Lifestyle grows.

That's where we were from last Investor Day, so let's talk about the future.

The first thing that's important, and we think about as a management team, is our stock is not valued properly. It is significantly undervalued. We look at the left-hand side of this chart; since we started our transformation we've outperformed cumulatively by 17 full points versus the S&P 500. That's 4% a year on average outperformance versus the S&P 500 while we were transforming the Company.

Despite that, if you look at any way you want to look at valuation, here's an example of forward price-to-earnings multiple, we're consistently trading somewhere between 3 and 5 turns below the S&P 500. We think we actually have a much more compelling story than the average company in the S&P 500. We have better growth. We have better cash characteristics, and one of the things we're trying to do today is help you understand the pieces of our company better and see if that can help address this and create value for our shareholders.

That's a good foundation for the future. We start at an undervaluation, which creates upside opportunity for all of our shareholders.

If you think about what's going to drive our performance and what's going to continue to drive it, this is how we think about it, which is we, for many years, have studied macro and trends and consumer trends, so we were early getting into rental. If you go way back, as Kathy will talk about, we got into rental more than a decade ago, looking at a trend toward rental in developed economies.

We've been early to adopt digital in areas like mobile, and to really understand how digital is going to transform the consumer. We've always focused on that. That's allowed us to go to the middle – innovate – and with our capabilities, that's what's led to market-leading positions. We're bringing better solutions to the market that enable our clients and consumers to do well.

The output on the right is our earnings. We now have much more diversification in our earnings. We have strong earnings. We have disciplined capital, so we think we're well set up to continue that outperformance.

Now, as you think about the lifeblood of our business, we're a B2B2C company, and we do that on purpose. We partner with the world's leading companies, and you'll hear a lot about these partnerships. They're driven by the innovation we've created. They're driven by the fact we've been in these businesses for 30 to 60 years on average, so we understand these businesses, we understand how the markets are changing.

If I look at some of the highlights over the last few years, since 2015 we have renewed 10 of our top clients, and today I'm going to announce something that we haven't shared with the market yet, which is we've renewed T-Mobile, and you'll hear more about that from Keith, but importantly as the renewal of T-Mobile, we won the Metro by T-Mobile business. That was with one of our competitors and later this year we're going to take that business and it will convert over to Assurant over time. That business when T-Mobile bought it had 9 million subscribers, and over the last four or five years it's grown significantly. We had not yet publicly disclosed that, but that's a big step forward as we continue our momentum in Mobile and Lifestyle, which is extraordinary.

Our average client tenure now for our major clients is up to 17 years; these are long-term relationships that are generally very sticky and we're embedded in the way they do business.

In about 40% of our accounts we've been able to add new services in the last three years, so whatever we've had before, we've added a trade-in program, or we've added some extra capability in Auto. Over the last few years in our 21 countries we operate in, we've added a total of more than 100 new partners. And so, we continue to really deepen this franchise of partnerships with the world's leading brands.

The other thing we do is that we follow the consumer. At the end of the day we're B2B2C, but we have to follow the consumer where the consumer wants to go as the world evolves, and so over the last three or four years, we've really broadened our distribution to the emerging parts of the world. For example, in Lender-placed, as loans have traded from the traditional banks into the specialty servitors, we've consolidated our market share and gained position in mortgage servicers.

Within cable and wireless, as we saw the trend toward cable operators offering wireless, we went aggressively at it and we've got Comcast and Charter; the two leaders in the U.S. have chosen us to be their wireless partner.

We've announced our collaboration with OEMs, in particular Apple, and you'll hear more about our ongoing relationship with Apple from Keith Demmings.

We've expanded our auto distribution with The Warranty Group purchase. We now are direct to the major dealer groups in the world, or in the U.S., and the major OEMs in the world.

And in Kathy's business in Multifamily, we've always played at the top of the sector. We've been able to drive down through technology with offerings that allow us to go further down into smaller PMCs as well as other routes to market for that product. So, we feel like, again, a great franchise that's gotten deeper in terms of our ways to reach the consumer over the last three years.

If you look at our business portfolio, it's really transformed. This is looking just at our segments, but in 2015 Lender-placed from our segments was 43% of our segment income. If you look at our three growth businesses, the ones that are kind of sticking out a little bit to the right, they were about 29%. Over the last three years we've had strong double-digit growth in Multifamily, in Connected Living, and then we've had our own strong double-digit growth in Auto, and then we acquired The Warranty Group which was primarily an Auto franchise. We sit here in 2018 going into 2019 now, we have more than half of our company's earnings are coming from the growth businesses that continue to have strong growth momentum.

Lender-placed, very important, but down now to about a quarter of our segment earnings with upside. We feel very good about how the portfolio has transitioned and kind of the number of sources of growth we have today versus what we had three or four years ago.

Another important thing, and we think this is part of the reason why our stock is undervalued is confusion on how much cat exposure we have or don't have, and so we've really been aggressively going after this.

If you go to 2015, more than half of our earnings had cat exposure and that was because Lender-placed was so outsized in our earnings. Through the growth in everything else, and through the purchase of The Warranty Group which is largely not exposed to cat, we're down now to only about a third of our earnings have any catastrophe exposure and that trend is going to continue as we have continued strong growth in Connected Living and Multifamily, which really has minimal cat exposure in Auto. That trend is going to continue and we'll have—fast forward a few years—even less than a third, likely, of our segment earnings will be cat exposed. Now, if Lender-placed grows, we'll pick up some cat exposure, but then we have a very strong reinsurance tower behind it and we—if you heard us on the fourth quarter earnings call, Richard and I talked about a major step that we took this year to take further risk out of our company, and so for those who saw what we did, we used to have a retention of $120 million per cat event—that's how much would be retained pre-tax by Assurant. We lowered that to $80 million, and that really changes our risk profile in severe events, and what we were trying to do is go after severe events.

If I go to the middle on here, the 1 in-20-year events, this is a storm season in 1-in-20, similar to what we had in 2017 as an example, on our old cat tower, which is the green, and our old retention levels, we would have kept about half of our earnings in that kind of environment. Today, if we had a 1-in-20 year event, we're going to keep on average two-thirds of our earnings. Now, the final numbers could vary a little bit based on the number of storms, how they happen, but dramatically less exposure in a 1-in-20 type year.

Then, if you go to the tail, which actually hasn't happened yet, that 1-in-200 year event, we've tracked hurricanes and cats going back into the 1800s and we haven't really had a 1-in-200 year event as a society, but if you looked at our 2014 program, we would have lost money in a 1-in-200 year event, which, again, is extremely unlikely but we're paid to worry about things like that. If we had that event now, we would expect to keep almost 40% of our earnings, even in the most extreme storm season that we've never seen. So, yes, we still have some cat exposure, but it's dramatically less than I think the market understands, and we've taken aggressive action to lower that exposure and reduce our volatility to catastrophes. You'll hear more about that from Richard and from Mike.

On our objectives, so, on our last earnings call we put it out, look out for this year 6% to 10% growth supported by double-digit growth in net income. As a reminder, we did a couple of things in '19 that caused that number to be a little bit lower than what we've had recently. One is we've made that decision to take risk out of the Company by buying more reinsurance, and then we have the full-year impact of the shares that were issued for The Warranty Group acquisition, and our outlook hasn't changed. We still have that outlook we're going to be—our perspective as we sit here today is we'll be somewhere in that 6% to 10% range. That's our expectation still for the year.

Then, what we've just announced this morning is as we think about 2020 and 2021, we have strong net operating income growth momentum. We have we can see in that double-digits for the Company. You combine that with some capital return and we think we can average 12% EPS growth over the next couple of years with acceleration as we get into 2021. So, you know, we're still investing. We've got a lot of new programs that are starting; those tend to ramp up over time, so we see this accelerating as we head into 2021.

Then, the announcement on capital return, so, we believe our stock is attractively priced. We should be returning capital in the form of buyback. We committed to $1.35 billion over the next three years—well, it's really an objective, so we expect to do that. If you look at it, the common dividends are in there, so it translates into about $900 million of repurchase we expect to do over that time period. It's really a reflection of our stock is undervalued, we have strong cash flow, we have confidence in that cash flow, and we have a history of being disciplined about what we do with that capital.

Let me summarize. You'll hear these themes throughout the day today. First of all, we've delivered. We've delivered outperformance over our history and through our transformation. We believe we're well positioned to continue to deliver that outperformance. We start with an attractively priced stock and with a lot of things we can do to drive shareholder value from that position. We've got strong profitable growth that we expect to continue in attractive markets where we have leadership positions, and there are five or six of those now that all have upside or growth in them.

We have two specialty risk businesses in Housing and Preneed that you'll hear about more later, that are earning substantially higher returns than the market, and they earn it because we do a different business model. We play a different way of acquiring the consumers, we engage with them in a different way. It's a different route to market and a different business model that allows our risk businesses to expect to out-earn.

We have our capital-light business which really primarily is Lifestyle, that's had strong growth over six years. We're going to talk today about that growth continuing, in really the world of the future. The connected car, the connected home, the connected device, where the world is heading for consumers. We've really changed the profile of our earnings, which we think sets us up well to deliver in the future so we have more diversified earnings. We have lower cat exposure. We have a countercyclical hedge in Lender-placed. All of that we believe will set us up to outperform in the future.

Then, finally, the thing that hasn't changed is our discipline around capital deployment. If we have excess capital after making sure we maintain our investment grade rating, after funding our organic growth, we return it to shareholders. That's been our history and we're going to continue the history as we look forward.

With that, I'd like to ask Richard Dziadzio to come up to the stage. Richard joined us shortly after the last Investor Day, and has really led a transformation alongside what we're doing in our businesses for our Finance organization, both adding capability, adding depth, new people into our team that really has helped us as we evolved the Company. I'm privileged to have Richard as my partner in all things and welcome you to the stage.

Richard Dziadzio:

Thank you, Alan. Good morning everyone. Thanks for coming today. It's a pleasure to be with you to discuss how Assurant is going to deliver financial outperformance in the three years to come.

Alan just outlined the overall enterprise financial objectives for the next three years. What I'd like to do is start providing you by the segment performance over the next three years.

If we look at this slide you'll see that on average, starting with Lifestyle, we are projecting that Lifestyle will achieve at least 10% on average growth, net operating income growth over the period. In terms of Housing, Global Housing and Global Preneed, they will have earnings growth as well, but the main metric that we have for them is their operating ROE. For Housing we're looking at a range of operating ROE between 17% and 20%, and with Global Preneed we're looking at it to sustain an ROE of 13%.

Also, Alan talked a little bit about expense discipline and you'll hear that as a theme throughout the day. I'll talk about the gross savings that we mentioned in our 2016 Investor Day and give you an update on that.

In terms of demonstrating the leverage we have going forward, we are setting an expense target for ourselves at the Corporate segment level to maintain the Corporate segment loss at $85 million for each year for the next three years. That will be amidst the growth in the revenues that we'll be generating, so that should demonstrate some good leverage.

What I'd like to do now is really talk about the financial objectives that we have, really through a lens of four financial foundations, four financial pillars: earnings, cash flow, balance sheet strength and capital management.

If I start out with earnings and I start with the enterprise earnings, you'll see, as Alan said, that we're going to generate double-digit earnings on average over the next three years, and those earnings basically rely on three major assumptions, obviously a number of different assumptions but three big assumptions. Connected Living and Global Auto will continue their growth and expansion, providing new products and services to clients and expand both domestically and internationally.

Multifamily Housing will continue to grow profitably with its organic growth, and you'll hear from Kathy McDonald later today about the penetration that we have and continued penetration in the rental market.

Then, finally, Lender-placed. Mike Campbell will come up later today and talk about Lender-placed, and the stabilization that we've seen going on there.

Then, finally, expense discipline; we will continue to demonstrate that.

Before leaving this page, I would like to talk about the double-digit earnings that we'll have for three years. We do not expect them to be linear. In fact, we'll have TWG for the full-year earnings in 2019, so those earnings will be relatively high. Then, in 2020, we're expecting modest organic growth, so we'll be in the single-digits in 2020 in terms of growth and net operating income, and that growth will accelerate in 2021, as we go and realize our full new partnerships that we have along with the synergies from the TWG transaction and the growth in partnerships through that acquisition.

Before leaving this page I also want to talk about return on equity. As Alan mentioned, we have transformed the Company over the past three years, and Lifestyle has changed quite dramatically, from more of a capital based to a fee based organization. It has a different financial profile today, so we really don't view ROE as being a primary financial metric for Lifestyle organization, nor do we view it as being a primary financial metric for all of Assurant. On the other hand, we realize it is an important metric and so we will be providing information to the market, continuing to provide that information on the ROE, and as Alan mentioned, we do expect it to continue to expand and we're looking at it to expand a couple of hundred basis points over the next three years. That will be driven by the growth that we have in our earnings and also the disciplined capital management that you'll see.

Turning to earnings, on Global Lifestyle, again, we're expecting earnings to grow at least 10% over the next three years, and this is based off our 2018 reported NOI which was $298 million. In 2016, we committed to 10% average growth for Lifestyle, and in fact Lifestyle has exceeded that and Keith will talk about that later this afternoon.

If we look at our projections, we see strong growth in both Connected Living and Global Auto, but at the same time we'll have some offsets that we've talked about at our prior earnings call, particularly in our domestic U.S. credit business. We'll continue to have strong expense management that will support the investments that we're making in the continued business.

Then the earnings pattern is largely driven by Lifestyle's earnings pattern so they will be similar, as I just mentioned.

I'd also like to talk about a couple of metrics for Lifestyle. For Lifestyle we will be focusing on the bottom line, growth in net operating income and we're going to provide you greater transparency with net operating income in Lifestyle going forward. Starting in Q1, we're going to start providing net operating income by line of business for Lifestyle, so net operating income for Connected Living, for Global Auto and for Financial Services and Other. We believe this is the most relevant information given where it's shifted to and what I just mentioned, and we're going to start providing this for you and this will replace the pre-tax margin and the combined operating ratio metric for the business.

Also in terms of cash flow, while I'm on the subject of metrics, I'd like to talk about cash flow for a moment. We've talked on various earnings calls and meetings about a cash flow metric and what's the best cash flow metric. We have not found one simple metric that explains the cash flow for the organization. As a reminder, today we provide you with two big cash flow metrics I would say, or pieces of information. The first we provide is information around the amount of cash coming up from the operating segments to the Holding Company. The second piece of information we provide every quarter is the amount of cash resources or what we call deployable capital at the Holding Company. Going forward, we're going to start providing, in addition to that, the acquisition related intangibles, obviously a non-cash measure expense that's running through the P&L.

In 2018, Lifestyle's acquisition related intangibles were $25 million. For Assurant overall, they were $44 million. In 2019, we're expecting the Lifestyle acquisition related intangibles to be about the same amount, and for Assurant overall to be about $35 million. All those numbers I just mentioned are on a post-tax basis.

As I said, the key metric for Housing, Global Housing is ROE. That's not to say that the earnings are not going to grow. They are going to grow over the next years and we're looking at between a 5% and 10% growth rate there. And in 2019, actually Global Housing earnings are going to grow, so that's a big turn in the corner for us. Over the next three years, as you see from this chart, we're expecting the ROE to be between 17% and 20%. We reported 9.9% in 2018; this was based on post-tax and a cat loss of $170 million. When we went into 2017, we estimated that number was going to be more like $72 million, so our expectation for the year was that the ROE was going to be about 16.3%. As you can see, we're managing the capital. We're managing the growth in earnings over time. We're expecting that number to be higher, 17% to 20% over the next three years, and that takes into account the added reinsurance that we purchased that Alan talked about a few moments ago.

Combined operating ratio will continue to be important for us for the Housing business, another critical measure. We had previously last earnings day talked about a combined operating ratio being between 86% and 90%. Mike will talk a bit more about that a little bit later. We are sticking with that combined operating ratio, which I think you'll all agree is a nice ratio.

In addition, Alan mentioned market weakness and what happens in a moment of market weakness, and we have seen in the past that if the economy or the housing market weakens, the placement rates that we'll have in Lender-placed will go up, and we would expect that to happen again.

I'd like to now turn to Global Preneed. It's not only a strategically interesting business for us but it's also an incredibly valuable business for us. It has steadily growing earnings and strong distributable cash flows. Another positive aspect of Preneed that I see financially speaking is the relatively low risk that it has given the returns that we're posting at 13%. Why do we have those low risks, that relatively low level of risk? It's really because we have an overall low level of mortality risk in the business.

Another interesting element of Preneed is its overall investment portfolio that we have. In 2015, the investment portfolio was about $4.8 billion. At the end of 2018, the investment portfolio grew to $5.5 billion. Investment income represents more than half of Preneed's revenue, so you can see why that's interesting for us.

In addition to that, as we see the growth over the next years with the return that we're showing, we should be able to distribute 100% of Preneed's earnings up to the Holding Company.

So, a combination of strong earnings, strong income from the investment portfolio and a high relative ROE, if we compare to kind of the Life sector, really provides us with a great deal of value.

Prior to moving off the earnings, I would like to touch on expenses. Alan mentioned the expenses in his opening remarks. We have a strong expense discipline. In fact, I would even go further and say expense management is part of the Assurant culture. During 2016 Investor Day we committed to deliver $100 million of gross expense savings. Through the end of last year, we have achieved $75 million and we expect to achieve the balance of those earnings over the next year. That's a combination of really us operating as one team and getting leverage of the global size that we have. Dealing with our vendors and having better conversations with the vendors and clearer contracts, working on the resources that we have across the Company and doing things like making sure we're using our facilities most efficiently.

We've been very disciplined. We have taken gross saves out of the Company, but what have we done with them. We've actually used them to invest in ourselves and invest in our future, and you can see from this chart, this slide on the right-hand side, an illustration of what we've invested in. We've invested in things like digital, data and analytics, artificial intelligence, customer experience. We've invested in our technology and in the business growth, and a lot of things that you're going to be hearing about later today from Mike, Keith and Kathy, as well as Bob.

These saves I would also say exclude any TWG synergies. We haven't factored those in. The $60 million net expense saves that we're in the process of achieving and ahead of achieving are in addition to the $100 million of gross saves.

I'd like now to turn to cash flow, and I think this pie chart is very interesting. In 2015, about 65% of the cash flow from the Company actually came from the Housing side of the organization. One of the statements that we made back then is we think that we could upstream 100% of the earnings from the segment to the Holding Company. We're reiterating that today, I would say even with more confidence than we had in the past because you can see have a much more diverse composition of cash flows. Lifestyle now will comprise about 50% of the overall cash flows of the enterprise that can come up and be upstreamed to the Holding Company, and also, within both of the segments there's a greater level of diversity. Kathy will talk about Multifamily Housing and the fantastic growth we have there and that we'll have in the future. Then also within Lifestyle, given the acquisition of TWG, Global Auto becomes a much greater piece of the earnings and distributable cash flow from that part of the business. So, we have a high level of confidence of being able to achieve that.

I want to now move to the next pillar which is our balance sheet and the balance sheet strength we have. Maintaining a strong balance sheet is important to a lot of our stakeholders and it's extremely important to us as well. We are investment grade rated and we expect to maintain that rating in the years to come. I'd like to highlight some of the things we do to keep ourselves strong and keep the balance sheet strong.

First from the investment portfolio, our investment portfolio is highly diversified and the largest part of it is high-grade, high-quality fixed income. Also, we look at our duration of the investments and we match them up to the duration of the liabilities and the cash flow coming into the Company, to not leave ourselves exposed there to big changes in interest rates and so forth.

Then finally, we have some alternative investments that provide us with some additional income as you've seen flow through our earnings in the prior years, and that we expect to flow through our earnings in the years to come. Our real estate investments is a good example of that.

Next, moving to financial flexibility, we're leaving ourselves some flexibility within the kind of the debt structure that we have. When we went into the TWG acquisition, the debt to capital ratio had drifted down, call it low 20s. Today, we moved it up as part of the acquisition and the funding that we did through senior debt, sub debt, convertible preferreds, and the issuance of shares to about 27%. It's 27.6% at the end of last year. Going forward, we want to keep that leverage ratio under 30%, so move there to provide us with additional flexibility.

We also keep ourselves liquid. Obviously through cat season we keep ourselves more liquid, but we have a high level of cash in the company and we also have a credit facility in case we would ever need it of $450 million.

Also, I want to talk about the overall risk profile of the balance sheet. Alan mentioned the cat protection that we had, the additional cat protection that we're buying and the proportion of the overall earnings that are exposed to cat. Mike will talk more about that when he comes up in a few moments, but in addition to that, we look at our liabilities. If you look at our P&C liabilities relative to the broader P&C market, our duration is much shorter, so it means we have less risk on volatility of the liabilities in that part of it. In addition to that, the transactions that we do with our clients, often we're sharing risk, particularly whether it be in the Connected Living space or in the Global Auto space.

Then finally, they're products that we know very well.

Last, in terms of the balance sheet, I talked about the investment credit rating, but in terms of the financial strength rating, we keep our insurance companies strong. Our clients, our customers, our creditors depend on us, and so we keep those companies strong and we will keep Assurant strong going forward.

As you can imagine, wrapped around all the balance sheet and all the thinking that we're doing is a strong risk framework. It's a clear view of the risk appetite that we have and it's a clear view on stressed scenarios and the 'what if' could happen to us going forward.

Alan touched a little bit on capital discipline, but before getting into some of the numbers, I really want to talk about some of the guiding principles that we have as a company and there's four of them that I put on this slide. The first is when we are investing in ourselves, we're investing in our core businesses and we're investing strategically. So, we're investing to help our clients and our customers, and while we're investing for profitable growth. And while we're doing M&A, we're highly selective. We're doing tuck-in—we're looking at tuck-in transactions going forward and also we're doing it with an eye on the risk return tradeoff that we have.

I just talked about the balance sheet and using capital to maintain our balance sheet strength. And we do not stockpile excess capital; we return it to shareholders and we give transparency to the market on the capital that we need to hold and that's available to give back.

You'll see here history demonstrates this. The balanced capital strategy that we had, we had 54% of our dividend share repurchases since from 2004 until 2008. And in terms of our dividends, we've increased our dividend at least once a year since we went public in 2004. Our dividend increased on average 16% per year and we increased it 7% at the end of last year.

This last number always surprises me, or impresses me. We repurchased 62% of shares since we've gone public.

What does that mean in terms of moving forward? We've talked about the earnings strength of the Company. We've talked about the ability for us to upstream cash to the Holding Company, and so what we're looking at forward was with that cash and capital capacity we're looking to use 75% of it to either buy back shares or dividends. We return—we're setting an objective today of returning $1.35 billion to our shareholders over the next three years. The last 25% would be selective tuck-in acquisitions, or additional investments that we want to make into ourselves.

The cash flow, the earnings strength, the use of our capital, really all translates into an earnings per share. We posted $8.65 per share at 2018, and as Alan mentioned, we talked about the outlook being between 6% and 10%, and as we reiterated this morning, we're still within that range. And then going forward, we'll deliver 12% on average in the years on a nonlinear basis as I mentioned, with 2021 showing an acceleration of that.

To conclude on the financial section and to wrap-up, I'd like to say a couple of words. First, we believe we're presenting a compelling set of financial objectives today that we have confidence in realizing. We have strong market positions, as you'll hear throughout the day. We have incredible momentum in our businesses. We have a quality of earnings. We have a strength of cash flow. We have disciplined capital management. And we think all of those quality together set us apart from a lot of companies.

With that, I'd like to turn the mic over to Bob Lonergan, our Chief Strategy Officer, so he can share with you how we've built, how we maintain and how we'll continue to reinforce our strategy and our market positions going forward. Bob?

Bob Lonergan:

Thanks, Richard. Good morning. I am very excited to be here because I get to talk about the fun stuff. Innovation is at the core of what we do here at Assurant. We don't sell standard, traditional insurance products. Instead, we partner with the world's leading companies and together we create innovative, differentiated solutions that meet both our partners' and our clients' needs.

I'm not going to spend a lot of time in the introduction here because what I want to do is spend the majority of time talking about tangible examples that demonstrate our record of innovation and show you how that when we replicate our playbook that we've shown in areas like connected device and connected car that we truly create differentiated, unique positions, and that what I hope and what I want is that when you walk out of here and you see our portfolio of businesses with leadership positions across the board, with strong tailwinds behind them and opportunities in front of us, as well as our demonstrated record of innovation that you will understand why we are so excited about the future here at Assurant and why we believe we will continue to outperform with innovation being a key driver.

To grow, we have to have a strong foundation, and we have a great foundation. Across the board, when you look at our tailwinds, take mobile. With the continued proliferation of smart home devices, with the upcoming arrival of 5G, we're going to continue to see increasing demand and volume around our mobile devices. In addition, when you look at the possibility of if consolidation occurs in the mobile industry, we are partnered with the companies that we think are going to win and aggregate the space.

When you look at auto, we continue to see increased attachment rates here in the U.S., and we believe that the international market is highly underpenetrated. You take that with the combined strength of the Warranty Group and Assurant platform, and we believe we are in a differentiated position to take share in that market going forward.

On Multifamily, you've seen the track record of really impressive growth. Well, when we look at that space we continue to see significant upside in both persistency and penetration rates.

On Lender-placed, as Alan alluded to, we think we were at the bottom of that cycle and that we would normalize, and if and when the next housing downturn occurs, that will be a natural hedge and provide offset to our overall portfolio.

Finally, Preneed, a fantastic business with a growing profile and we are partnered with the leading aggregator of that space who continues to consolidate that industry, and also, there's been a material investment made in the point of sale technology there, and so we plan and expect to see increasing penetration rates of funeral products.

Overall, we feel like we have a great portfolio and it's from that portfolio that we then expect to innovate.

When we think about innovation, we break it down into four parts. I'll spend the majority of today focused on internal R&D. Secondly, we also use acquisitions are part of driving innovation, and going forward you'll see us focused primarily on tuck-in acquisitions that either add a new capability or add scale to our existing line of businesses. Now, in 2018, we did The Warranty Group acquisition. That was very material and transformative for our Automotive business, and going forward we will still consider opportunities like that, but they are rare and we have a very high hurdle rate. When we look forward we would expect or think it would be unlikely that another opportunity like that would emerge, but if it does we will consider it.

Third, in 2015, we started Assurant Growth Investing, which is our venture capital arm, to access external innovation for both strategic and financial return, and we'll talk about that more in a couple of slides.

Finally, partnerships. Any time that there's an outside party that has a subject matter expertise we will gladly partner with them to help accelerate and achieve any of our goals.

Let me first talk to internal R&D and how we think about it. We break it out into two categories: product innovation and capability innovation. On the product side, we're very much focused on expanding our services and solutions beyond insurance. Secondly, we're just seeing massive opportunity in the connected world – the connected car, the connected device, the connected home, and so with that we are very much focused on thinking about how do we continue to innovate and drive new solutions in those spaces?

On the capability side, we are making material investments in data analytics, in digital, AI and automation, and I'll spend a lot more time today focused on AI and automation as examples.

Let's talk about Assurant Growth Investing. We started this in 2015. To date, we've made around 16 investments, around $75 million of capital deployed. We have three professionals who are dedicated full-time, and we target early stage technology-enabled companies who are focused in areas that are strategically relevant to Assurant. How could they be relevant? They could be active to a new distribution channel, a new capability, potentially a new product, or even a new geography, and we'll share some examples in an upcoming bit.

Then from the financial perspective, we have a very simple guideline. In each of our fundraising rounds, we want a tier one traditional venture capital fund like a Sequoia or an Andreessen to lead the round, and that way, the way we think about it is that we, using our strategic expertise and subject matter and knowledge can identify those companies that are the most strategically relevant, that we think have a competitive advantage, and then by partnering with a traditional tier one VC they bring their decade-long track record and expertise around structuring the round, and so overall we feel very good around the portfolio investments we've made to date.

Where I want to start, and what I think is a fantastic example of what we've been able to do is in the connected device world. Let's go back 10, 15 years. If you had a protection product on your mobile phone, what did that really mean? Well, if you lost your phone, maybe you'd get some kind of defined benefit, like cash compensation for your lost phone. Or maybe in a week's time you'd get a refurbished phone in the mail. How does it work today? Well today, if I want to upgrade my phone I could upgrade it today. If I lose my phone, I get a new phone tomorrow. If I scratch my phone or break my phone's screen, there's a same-day repair location near me to get it fixed. If I have a technical question, I go into the mobile phone app and have the phone help diagnose it for me. If I want to talk to someone live, again, I can use my mobile app and get access to a live agent. If there's some kind of malware on my phone, I can use the mobile app to diagnose it or triage it. These are just the consumer facing services we're providing. Let's think about some of the other capabilities and behind the scenes action for us.

We do buyback and trade-in. We're the ones looking at each different type of phone and each type of manufacturer and forward pricing, what is that phone going to be worth in two, three, four years? We're also doing the asset disposition. Should I sell this phone through eBay? Should I sell it in another market? Should I break it down for spare parts? When we've done this, we've used internal R&D to do trade-in and upgrade. We've built ourselves our asset disposition capabilities. The AppleCare which Keith Demmings will talk to more in a little bit, done in-house. We also have supplemented that with M&A. Our repair and logistic capability came through three different acquisitions, and lately, device financing is an area that's intriguing to us and we've used Assurant Growth Investing to invest in two early stage companies that we had some—that we believe have some unique differentiated ideas.

So when you step back, it makes a lot of sense why we feel like this is so difficult to replicate and why we sit in an advantaged position in the connected device world. That's why the results also speak for themselves. Since 2015, we've seen 14% annual growth in mobile subscribers. We've seen NOI, our net operating income profit, grow 27% per year in our connected device business. This is the playbook, and we've been doing this here for the last 10 to 15 years.

The next area I want to focus on is the connected car, which has really been in the last two to three years and with The Warranty Group acquisition where you've seen us take that same playbook and apply it there.

I want to start with a new business that we've created since the last Investor Day. Last time we were here for an Investor Day, we mentioned the sharing economy trend, and said, "Hey, this is really interesting." We hired a talented leader, Kunal, whom you'll meet this afternoon, to come in and lead the business. It was more of an idea. It was more of a trend we were seeing.

Fast forward three years and it's quite impressive what that team has been able to achieve. I'm going to give you a couple of examples of the products and solutions that they've developed. First, let's talk about vacation rental property managers. Some of you in this room might have a second home. In fact, you might be renting it out right now to a third party. Well, your traditional homeowners insurance isn't going to cover you or protect you if you're using that property for commercial purposes. So what we have done is partner with companies like Vacasa to provide the owners of that home protection for any kind of damage or liability that can occur while someone rents out that property. This is also a great example of how we've used Assurant Growth Investment. One of our partners is Vacasa. We thought it was a great company with a lot of potential. We invested in that company three years ago and formed a strong partnership. It gave us a distribution channel or a partner for which to test and iterate the product with, and since then we have been able to take that product to other players in the space.

Another example is shared mobility, so think carsharing, vehicle subscription services. As we know, many people don't want to own a car 100% of the time. Maybe they need it one week a month. Maybe they only need it certain months of the year, or maybe they just like trying different cars. Well, what we've done is we've partnered with companies like Flexdrive who offer the subscription model, and so when the consumer uses this product they want it all bundled into one. They don't want to worry about maintenance. They don't want to worry about insurance. We're the ones partnering with Flexdrive to actually develop this unique solution. I think it's a great example of how we identified a trend, invested in that trend and now have a business that is really quite exciting, and when you see some of the metrics like 1.5 million vacation nights or over 100 million miles of shared car usage, we're really getting some nice traction here. We're seeing great growth.

I've mentioned only a couple but there are other areas like on-demand delivery, shipping insurance, and we don't know which of these trends are truly going to take off, but we're in a lot of different spaces with a lot of great partners and we think there is significant potential here.

That was an example of a new business we've created. Let's talk about a new product and product innovation, and hopefully—I know some of you got a chance to meet with Chad out front. He's going through demos right now of PocketDrive. PocketDrive is what we view as the next evolution of the connected car platform. So, what does it do?

It's a mobile app that plugs into your car and collects a wealth of information. Think about when you get in the car and the check engine light comes on, and you have no freaking idea of what that means. Is the car about to explode? Or is your gas cap not tight enough and you need to go tighten your gas cap? This tells you in an easy to understand way what's actually going on with your car, and how severe is it? Do you need to go get it serviced or not? It also tells you when you need to get maintenance. And part of the beauty of it, it actually gives you then the locations near you as well as your dealership, and then potentially gives you offers to incent you to go to certain locations. In addition, you can get roadside assistance. If you need access to a personal mechanic to figure out what's wrong, if you need technical support because you can't figure out some function on your car, or you want to figure out how to use that function. There's a variety of consumer services, and we love it because traditionally when you sell the vehicle service contract you may never use it, or you may only use it when there's a problem. Well, this is something that a consumer is going to use every day, and it should really create a very positive experience, and so we find that very exciting. The fact that we can partner or pair it up with how we sell the traditional vehicle service contract gives us a lot of excitement that it's going to be very successful.

When you think about it from our partners' perspective, it's very attractive to them. Not only is it a value-added option at a higher price point that could drive additional revenue or profit for them, but what are they thinking about? They want to drive the consumer back to their stores, back to their service shops. Well, this product, our PocketDrive is going to be right in front of them when the consumer needs to get maintenance or when they need service, and so we can help incentivize the consumer to go back to their service shops, and that's what the dealer wants, so we think it's very attractive for our partners.

We also, we love the way that it came together. From Assurant we brought a plethora of capabilities: our consumer insights, our data analytics. Earlier when I mentioned The Warranty Group acquisition, that came with a direct-to-dealer salesforce, which was critical for us to be able to partner with the dealers that partnered to get them to understand how to sell the product and incorporate it into the process.

In addition, personal mechanic capability is coming from Assurant. The personal tech pro, our premium tech support, is coming from Assurant, but we also needed a connected car platform. We looked out into the marketplace and that's where we came across Mojio. Mojio is an early stage company that we believe has the best connected car platform out there, and when we met the company we were very impressed by the management team, and we wound up using Assurant Growth Investing to make an investment in the company which, one, strengthened the relationship; two, it gave us, if the product does extremely well, we benefit in the upside of Mojio; and three, it helps us with the story. So, as we go out and work with the dealerships, this is the company and a partnership that we have a minority stake that we partly own.So, overall, we're very excited about PocketDrive and this potential.

Now, I want to step back because we've been talking about both the sharing economy and PocketDrive, but I want to talk about connected car and our overall automotive position. We've gone through vehicle subscription services, car sharing services. We haven't talked about digital yet, but we have Paul Sims this afternoon and we are doing some very impressive things there, leveraging heavily our data analytics capability, and we've talked around our connected car platform.

Let's go back to last Investor Day. We had a nice auto franchise. We were a top core player selling traditional vehicle service contracts. We primarily provided a narrow part of the value chain in terms of we did the underwriting for the products, and we sold through TPAs or third party administrators, which is a great channel for us and continues to be a great channel, but we kind of had where we were playing. If you look at us today, we're so much more. Let's think about it from the perspective of a dealer.

As I mentioned, they're trying to drive volume for their service shops. Well, they can do that through PocketDrive. They're thinking about digital, digital disruption. Well, we have invested significantly in data analytics; we know how to drive online attachment rates; we are the perfect partner for them. They're thinking about the depreciating asset in their parking lot, on the pavement, that every day is worth a little bit less in value. Should they do a vehicle subscription service? Again, we're the ones working with Flexdrive to figure out if that product makes sense. Then, you know, when you're a dealership, the F&I process is critical, but it's also very complicated and they don't want to change it. Well, we are their critical partner, or one of their two critical partners in the F&I process, so, you know, with PocketDrive, we're not changing it. It's still the same number of products but what we're doing is we're giving the consumer another option, what we think is a very attractive option at a higher price point. So, it's beautiful for the dealer because now they have another way to generate revenue and profit to drive consumers back, but they don't have to mess with a well-honed F&I machine.

When we look into the competitive landscape, we see a lot of traditional vehicle service contract providers. What we don't see is a company like us that is a differentiated partner that you want at the table discussing all these different changes in mobility, and how is the market going to evolve? That's why we're so excited about the future of Auto for Assurant, and that's another example of the playbook, now that we've gone through the connected device and now a connected car, and why we feel like we truly have a differentiated position.

A new market or a new segment that we're seeing is around the connected home. I'm not going to spend a lot of time here but I want to at least share with you why we're so excited. I read a few days ago that one of the subject matter experts, or analysts, expects that the connected home will have over $100 billion of sales around services and products. Just a massive growing market.

Let's think about the consumer. What is he or she going to need? Well, they're going to want protection for their products. They're going to want installation. They're going to need repair. They're going to need technical support. How do I get all these products to work together? How do I make sure I'm realizing the full functionality of what these products do? Well, that's everything we do. We already do that around the connected device. We do that around the connected car.

Who's going to be playing in the space? Well, it's in mobile carriers, the cable operators. It's the online retailers. These are all the players that we already partner with, that we have longstanding trusted relationships with. So, when we look at connected home, we see a massive opportunity. We're doing some really interesting things right now that are in the pilot experiment phase, but three years from now when we're at the next Investor Day, I'm very hopeful and believe that we will be talking about our significant new connected home business.

Up until now we've been talking around product innovation. I want to spend some time around capability innovation because we also see that as a material transformational opportunity. It's interesting. When people come up with these words or phrases like Big Data. You know, 10, 15 years later and I still have no idea what that means, but AI or artificial intelligence was something that really started coming up three to five years ago and it's real and it's transformational about how we can operate our business and also dramatically improve the customer experience.

It's a great example of how we do use partnerships here at Assurant. Each of these six circles on the slide represent a different external third party we're using to bring in the best subject matter expertise around automation, machine learning, robotic processing. This is also an example of how we use Assurant Growth Investing. PrecisionLender is a company that we came across three or four years ago that we felt like was really cutting edge around artificial intelligence, and so we made an investment in them so that we could work with their management team, and also, work with their investor group who were focused primarily on investing in companies with differentiated AI. That's led to two of the partnerships that we have on this slide.

While we have numerous initiatives going on across the company, I want to focus on one in particular, dynamic claims management. How it's different today, we have a self-service portal where the consumer enters in his or her claim and this avoids multiple phone calls; it avoids the consumer having to find information that they may or may not have at the time of the first call or the second call. They can also do it when they want to. Then, using our AI algorithms, we can potentially straight-through-process the claim, which is much more efficient for us, as well as clearly a much better experience for the consumer. Then, also, we are using machine learning algorithms, which continue to get smarter, to detect more fraud and subrogation opportunities.

I just wanted to share with you a couple of statistics from our initial pilot that we ran last year. We saw a 60% increase in adjuster productivity. We saw a 25% increase in fraud volume protection and subrogation opportunities—a 50% increase in subrogation opportunities. So, right now, we are in the midst of making these into enterprise-wide platforms and capabilities for Assurant, and Francesca will share some of the more details later this afternoon.

In closing, hopefully this was helpful in really sharing some of our demonstrated track record of innovation here at Assurant. We use multiple levers to create these opportunities, and what I really want you guys to see is this playbook – the connected device, the connected car, the connected home – and that when we execute on it, these are differentiated complex solutions with the world's leading companies and that's what makes us in such a great position to then partner with these leading companies.

Thank you for your time, and with that, I would like to invite Richard and Alan back to the stage.

Alan Colberg:

All right, thank you, Bob. We're going to take Q&A for maybe about 20 minutes, and then we'll take a break. As we do Q&A there are microphones that will be coming around. We want to make sure that you are able to use the microphone so that people on the webcast can hear you. As you ask a question, if you could state your name and affiliation to start.

With that, let's take some questions. First, over here.

John Nadel:

Thanks. John Nadel from UBS. I think if I think about the cash flow generation over the three-year period, based on the numbers you've kind of outlined it look like you'll generate give or take about $2 billion of earnings over that three-year period. I guess I've never heard you guys talk about 25% going back into the organization for organic growth, and in particular when the growth areas are really capital-light focused areas. Should we be thinking about that 25% as really mostly M&A?

Alan Colberg:

I think that's fair, John. If you look at our history, other than The Warranty Group which was a very unique situation, our M&A has been smaller. What we've done with it is deepened in a vertical we're already in. We add capability, so I would expect most of that $500 is M&A because we're able to self-fund a lot of what we're investing in our current businesses through the expense take-outs and some of the other things we've talked about, but mostly M&A.

John Nadel:

And real quick, following up on that, does that include the opportunity to take on the additional portion of Ike?

Alan Colberg:

No, we have no current plans to do that. We were just highlighting our financial flexibility that we believe we have as a company, but no, no plans for that.

John Nadel:

Then I've got one separate one. I think it's based on the math in the slides, Connected Living earnings over the past couple of years have increased from about $60 million give or take to about $150 million. In rough numbers, can you help us understand what's driven that growth? Is that number of devices covered that is the primary driver of that, or is it the refurbishment business? How much of that growth is being driven by those two things, or is there a third contributor?

Alan Colberg:

Maybe I'll start and Richard, you can add on and also talk more about what we'll be doing with transparency in the businesses going forward. A couple of things going on there.

One, we've added new clients. A lot of the growth comes from we've signed up the clients you've heard us talk about. But importantly for the client we already have, we're doing more things. You mentioned trade-in and repair. That business, as we've talked about in the earnings call, kind of was at a very high level in '15, and it's kind of been flattish the last few years. What's picked up the growth are the other things we're doing around Premium TechPro and some of the other services that we're adding. So, I would view it as it's adding clients but then importantly it's adding capability, additional services, and you'll see this when Keith Demmings talks later today. He'll go through a chart that shows the evolution of how we're adding more and more things per sub.

John Nadel:

Got you. Thank you.

Richard Dziadzio:

Thank you.

Chris Campbell:

Hi, yes. It's Chris Campbell from KBW. I guess just as we're looking at the number here, is the new T-Mobile Metro relationship, is that baked into your current expectations for Lifestyle?

Alan Colberg:

Broadly on that I would say everything we know about our current clients is reflected in our outlook.

Chris Campbell:

Okay, great. Just kind of a follow-on question, you have a non-linear net operating income growth potential where it gets a little bit slow, where you have TWG rolling in 2019, it slows a little bit in 2020, and then accelerates in 2021. I guess what's the catalyst driving that 2021 acceleration?

Richard Dziadzio:

I think it's a couple of things. First, you know, I think you mentioned in the question, we have the purchase of TWG, so we see that running through. We see the synergies being captured, and as we go through we just see more value coming out of TWG; it was part of the investment thesis.

Secondly, the partnerships that we're investing in, we have invested in and we're investing in today, we just see them continuing to grow. We see the business continuing to expand and grow, and as Alan mentioned, get new clients, so that's why we really talk about an acceleration into 2021.

Vincent D'Agostino:

Good morning. Vincent D'Agostino, T. Rowe Price. On the T-Mobile renewal, at this point can you say whether or not that extends through any potential T-Mobile Sprint combination, and so is that secured on the other side?

Alan Colberg:

We'll talk more about it later on with Keith, but it's a multiyear renewal, and I think our relationship with them is strong. We've been their partner now as they've really executed their own carrier strategy and I think we feel very good in evidence of that is the pick-up we have this year of the T-Mobile by Metro business. Multiyear renewal and we feel good about the relationship.

In the middle.

Jacob Feinstein:

Hi, thanks. Jacob Feinstein from Samlyn Capital. As you think about the bucket of capital that's been allocated potential towards M&A, how do you think about different either return hurdles or strategic priorities? How do you balance financial return on capital versus things that may not have an immediate payback but provide a really nice either customer facing or internal capabilities, or things like that? Thanks.

Alan Colberg:

Bob, you run M&A as well as innovation. You want to talk about that?

Bob Lonergan:

Perfect. We will continue to seek M&A opportunities, specifically capabilities, as you just described, that really differentiate the places we play, whether it's the connected car, the connected device, connected home. We will absolutely make those acquisitions. As well as if we see opportunities to drive scale in our existing lines of business, we'll see that. What you likely won't see us doing is going to completely new areas of M&A, and then like I said earlier, we will consider material M&A but it's going to be rare and difficult, and we're going to very much for all our acquisitions have high hurdle rates and they have to be highly strategically relevant.

Alan Colberg:

What I'd add is we're looking at these add-on M&A – it's always a build versus buy discussion we get into, so are we better off to build it ourselves, and Bob mentioned many things we've actually elected to build it ourselves, or does the buy accelerate the transformation, or get it quicker, more compelling than we can build? We always look at it, but as Bob said, the M&A is really focused on filling in and that's our history other than The Warranty Group, has been really filling into our key growth businesses.

Other questions? I'll give you a second pass. Just like the sell side earnings calls we do with you.

Mark Hughes:

Mark Hughes, SunTrust. The PocketDrive, how much has that actually been made operational. It sounds like an interesting capability. Are people buying it today? If so, how deeply is it penetrated? When is it really going to get to scale?

Bob Lonergan:

We announced it in January at the Automotive Expo, and right now we're working with partners to actually identify who we're going to partner and roll it out with. So, very much we have a product solution that's ready to go; it hasn't rolled out to the marketplace yet. When it does roll out, what I wanted to highlight is we think there's a lot of different ways it can win. First of all, we're going to be able to sell it to our existing VSC contracts. We think it's going to help drive additional VSC sales, and then we think it's going to differentiate us in the marketplace so that we'll be able to sell to new dealerships. But it really is going to be over the next three to six months when we officially start rolling it out and start to see the traction.

Mark Hughes:

Any early thoughts on price points, additional—or percentage over existing warrantees?

Bob Lonergan:

Yes. So, primarily, it'll be sold as—or most likely be sold as an add-on to the vehicle service contract, which I'd say is around 72 months, and so it'll be an additional $8 to $10 price point per month.

Alan Colberg:

Stay right at this table, we'll get to you, John, in a minute.

Gary Ransom:

Gary Ransom from Dowling. You've talked about the strength of your business partners, but consumers are fickle, sometimes they decide to do things like hold onto their phones longer, or things that change that might affect your business, and I just wondered if you could talk a little bit about that, how you're monitoring that, or maybe it'll come later in the presentation, but just how you watch that and how you can help your partners to adjust to those changes.

Alan Colberg:

Yes. So, you'll hear a lot more about that as we talk about Multifamily, where we've really evolved our business with Connected Living. What we try to do is, for the thing that we're doing, we try to understand the consumer experience as well as our partners can, because we're focused on it. In Manny's world in Mobile, we did a great job of really understanding over many years how the consumer was evolving and what the trends were, and that's how we've—lead to our repositioning our products and evolving them. So, we try to go very deep on the areas that we play around how the consumer is evolving. I mentioned in my remarks around following the consumer as they elect to go different places to get their phone or car, and so it's a priority for us. Francesca, who you will hear from later today, is leading up all of our efforts to ensure our consumer experience stays at or above the levels that our key partners require.

Bob Lonergan:

Maybe just a couple examples, if I could add. I think on the Auto side, that's why you see us really involved in vehicle subscription services or car sharing, to be flexible around how that could evolve and whether that could become quite material over time. Then, even on used phones, you know, as consumers hold onto them longer, that also provides opportunity with us with asset disposition, because when we get these phones back from upgrade and buyback programs, if used phone prices go up or there's more demand, that creates opportunities for us in other ways. So, we do feel like across our businesses we have a diversified set of opportunities to take advantage of different trends in the market.

John Nadel:

John Nadel from UBS again. I know we're getting into the Global Housing segment, or discussion next, but maybe we can start with a couple of quick questions to sort of set the stage, if you will. Where's the placement rate going to bottom and when? Then, secondly, if you've got X amount of equity at year end 2018 supporting Global Housing, is there any reason, looking out the next couple of years, that that dollar amount of equity—assuming the placement rate is going to stabilize, that that dollar amount of equity needs to increase at all?

Alan Colberg:

Yes, maybe I'll take the first part and, Richard, you can talk on the equity. If you look at the housing market, it continues to be strong, and in our environment that means the placement rate will continually to gradually decline. So, we don't see in the next few years, or expect placement rate to flatten, but if the housing market stays strong, it'll just be the rate of decline is slowing, and you're seeing that already. What we've said is we can sustain—we expect to be able to have Lender-placed earnings flat because of our actions on expense management, the technology we're rolling, and with our regulators, we're ordinary course, based on experience now, as to what happens to our rate. So, we're planning for a world of continued gradual declines in placement rate, but we can offset it through expense, etc.

John Nadel:

If I can just follow up on that one real quick. I think, Alan, in the past, you've also mentioned that there's a natural level of placement rate built into the business. I guess I'm trying to understand where are we today versus that natural level, even if the housing market continued to be as robust, stable as it is today.

Alan Colberg:

Yes, and the natural level, just so everybody is clear, we have a portion of our placement which is voluntary, so the consumers in the home, they're choosing our product for a variety of reasons. We have the piece that really is countercyclical, is when the house is in foreclosure or seriously delinquent or REO, that's the piece that goes up in a crisis and comes down. As we've said, the rate of decline is slowing. It means we're getting closer to that natural kind of floor in the placement rate.

Richard Dziadzio:

Picking up on the capital part of the question, as well, I mean, in our analysis, in our projections, the capital we're talking about returning, we have built in, I would say, more stable market conditions going forward over the next three years. We're not, whether it be in earnings, cash or capital, factoring in the housing market getting much stronger or much weaker. So, I think capital comes through with the projections. If something happened and the penetration rates, placement rates went down lower, obviously, overall, that's not a good thing for us, because we don't have the premiums coming through, but the flip side of the equation is, as you're pointing out, John, it would be a release in capital, because we'd have less exposure.

John Nadel:

Okay, but under your current expectations, it sounds like equity would be relatively flat looking out the next couple of years. I guess I'm just trying to understand—

Richard Dziadzio:

Yes, as Alan just mentioned, we're really looking at a decrease in the decrease, if I can put it like that, of the placement rate, so it's relatively small in kind of the scheme of Assurant.

John Nadel:

Helpful, thank you.

Alan Colberg:

So, other questions at the moment? Back over here.

Male Speaker:

Alan, I would be interested in kind of your high-level thoughts on the competitive environment in Mobile. You've kind of won one, you've won some good ones, you've got a good track record, you lost one the other day. Could you kind of give some sense of what the dynamic is?

Alan Colberg:

Yes, I'll certainly do that, and you can ask more from Keith later on. The positive for us is we have been winning in the mobile market. We have strong momentum. You heard a lot about it in Bob's slide, of how we've evolved the roadmap, and if you look at the last few years, we've probably announced five or six new client wins of significance in the mobile space, almost all of which we're winning because our products, our capabilities, our willingness to innovate are better than what's available in the market, and so we have momentum and we feel good. Now, with that said, it's a competitive market and we have to continue doing that, and continuing to invest to improve our products and capabilities, but we feel good about our momentum.

Other questions at the moment? John, you want another one? Okay. We'll have a chance later on today for more Q&A, after we have the next couple of sessions, as well.

John Nadel:

If you're willing to take more, I'm willing to ask more. With a three-year outlook—I mean, I'm just reading here in the last couple of days 5G is starting to roll out slowly, but over the next three years, I would imagine that would accelerate. Is there anything in your outlook, as it relates to revenue growth or earnings growth out of Connected Living, that takes into account some sort of significant upgrade cycle related to 5G?

Alan Colberg:

Yes, I think Bob briefly touched on 5G. I think we're very excited about what 5G can do and the ability to leverage that for consumers and for all of us. I think the reality is that technology adoption has always been a little slower than some of the early predictions are, so we don't expect it to meaningfully affect the next couple of years. When it does happen, it will force a wave of trade-in and upgrade, but, again, adoption is slow, and you keep hearing delays about when it's really going to be out and fully available, but it's coming, but we're not assuming it materially impacts the next three years.

John Nadel:

Got you, and then I've got one more. The capital buffer that you've had for about a decade at the parent company at $250 million—

Richard Dziadzio:

Yes.

John Nadel:

I've written on this, I mean, you guys have seen it. It seems to me that the rational for that a decade ago no longer exists given your business mix today. Is there any reason why that can't come down?

Richard Dziadzio:

Yes, no, it's a great question, and in fact, we are—I would say we've changed our perspective on it as we've updated our three-year projections, and you're exactly—you framed it perfectly. In fact, it was $250 million and it was really—we've talked about it being available to put down into the operating segments. As I mentioned, we keep our insurance companies very strong. We've had two big cat seasons in '17 and '18. We haven't had, on kind of an overall basis, needed to put any money down from that amount. So, what we're thinking about it now, is we're thinking about the level of—let's call it cash resources that we need to have at the Holding Company being equal to one year of operating expense at the Holding Company and one-year debt. Now, that number is pretty close to the $250 million. In fact, right now it's $225 million, so that could move in the future, but I think that's a better way of thinking about the cash resources that we need to have there.

Alan Colberg:

Yes, and I would add, I think it's important we maintain that financial flexibility. So, we're thinking about it very differently, but it ends up, just by chance, to be only a $25 million lower number at this point.

John Nadel:

Thank you.

Alan Colberg:

So, let's go ahead and we should take a break, and we'll come back—we'll have another chance for Q&A after the break. So, everyone, come back at 10:40, and if you haven't checked out the demos yet, please take a look at Pocket Geek and PocketDrive. So, we'll see you all in about 10 minutes.

(short break)

Alan Colberg:

All right, if everybody could starting taking their seats, we're going to get restarted, and as I mentioned, we'll have time for additional Q&A after the next couple of segments. So, get everyone seated and we'll get going.

So far this morning, we've focused on overall Assurant and given you a sense of where we're going as a company, how we're evolving our business. We thought it would also be helpful to go deeper in our two largest segments, and so we'll start with Global Housing and then we'll go to Global Lifestyle, to really give you a flavor for what's going on, how we feel about those businesses and how they're evolving in a constantly changing market. So, I'd like to invite up first Mike Campbell, who's our President for Global Housing. So, Mike?

Mike Campbell:

Great, thank you, Alan. Well, it's a pleasure to be here this morning with you to share more about Global Housing and the progress we've made. While we've been serving millions of customers, we've also driven strong returns and we've diversified our earnings. Alan has talked about how we've repositioned Assurant as a whole for profitable growth, and that theme absolutely holds true for Global Housing, where we've stabilized the LPI(2) business, we've delivered exceptional growth in Multifamily Housing, we've expanded our specialty offerings, and we continue to leverage our risk management capabilities to take volatility out of the earnings. It's for these reasons, and quite a few more, we're excited about our expected growth in 2019 earnings, and beyond.

So, let's go ahead and get started and start talking about some of the businesses. We are very proud of our leadership position in our businesses. We have deep expertise serving our 38 million customers and our employees, our 5,500 employees in Global Housing work every day to drive innovation and a great customer experience. Something else that we do all the time continuously, and you'll see here, is we look to meet unmet market needs.

When you think about the segments—I'm going to hit these at a high level. Kathy McDonald, as Alan mentioned, is here today and she's going to take a deeper dive into Multifamily Housing, but I want to point a couple of things out.

First of all, our Multifamily Housing business, we are the original disrupter. We've been in this business for over 15 years. We've achieved exceptional growth. We have digital capabilities that really led the way in this space. We also have a great integrated offering that, again, is far more than insurance, as Alan said earlier. So, very exciting business.

One final point I want to make about Multifamily Housing, I don't want to take all of Kathy's thunder here, but we've just hit 2 million policies. That's a real important milestone, again demonstrated growth. People talk about growth. Assurant, as a company, has demonstrated growth in this channel.

So, let's move on to Lender-placed. Alan's talked about this as a cornerstone business for Assurant. We've been in this business for decades. We're an industry leader in this space, because we are a trusted advisor, we believe the most compliant tracking delivery company out there. We continue to invest in technology.

(2) Throughout the presentation, "LPI" refers to Lender-placed insurance.

We have very, very strong relationships, and we're going to talk about that in a couple of minutes and I'll take a little bit of a deeper dive and get into the business itself here in just a bit.

So, rounding out the products, we have a real strong presence in NFIP[3]. We have 600,000 customers that count on Assurant every day to make sure we're there when they need us the most. We have strong claims capability, we have great views of doing business, and it's a real strong industry-leading position there. We have about 0.5 million policies, or about 465,000 policies in manufactured housing. This is a longstanding business for Assurant, it's been a very good business, and we're going to talk about our leadership position there.

Then, finally, rounding out, you can see the list of the products we have, but the sharing economy, I'd like to hit on that one, because we think about new profit pools. Some of the businesses, like Multifamily Housing, just 15 years ago was a new profit pool. With the sharing economy, we're paying a lot of attention to that. I think all of us use our apps—we're going to have Kunal, his name was mentioned earlier, come up and talk about this, but we use our apps all of the time, we buy goods, we buy services, we trade, you know, we share homes, etc., cars. So, it's a real exciting area, one we're very excited and looking forward to.

So, how have we done with these businesses? Alan hit on how our businesses have outperformed. This is an example, and in the appendix we've named all of the companies that we're comparing against. We have achieved exceptional ROEs over the past five years. We're at 16%, compared to our peer group at 9%. This incudes our cat losses of the past couple of years. Now, when you look at the past couple of years, the ROEs have been a little closer to the industry average with the actual losses, but these are exceptional results. For those that are following in some of the specialty P&C sectors, you don't find a lot of companies that can deliver 16% ROEs, including the cats that we've had. We've been able to do that because we've been driving growth in Multifamily Housing, we've talked about what we've been able to do to stabilize the business, and we are looking at these new profit pools, so our mix of businesses is changing, and we'll cover that in a bit, but really, really strong delivery of earnings.

A final point, our cash flows. Over the past five years or so, we've been able to dividend. Richard and Alan talked about the dividends from the businesses. We've been able to take about $1.5 billion of excess capital from these businesses, even in a couple of more challenging cat years for the industry. So, we're really proud of our results, we think they're exceptional, and hopefully you feel the same way.

What's important, though, for our business are our relationships, and Richard talked about our relationships. We partner with industry leaders. In our mortgage channel, banks and mortgage servicers, eight of the top 10 banks or mortgage servicers partner with Assurant. That's pretty phenomenal. We have three- to five-year contracts, and six of our top 10 have been with us for over 15 years. Now, they stay with us because we deliver for them consistently in the most compliant way. We continue to invest in our businesses, and that's important for them.

The property management space, nine out of the top 10 property management companies partner with Assurant. So, you think, wow, that's great, but you've penetrated that pretty strongly.

(3) "NFIP" refers to the National Flood Insurance Program

There still is a great deal of white space. Nine of the top 10 property management companies still represent a very small percentage of the overall rental market. Kathy's going to get into that a bit later as she talks about the Multifamily Housing business.

Independent agents, we have eight of the top 10 independent agents supporting our flood business. They come to us because we are there for them in the claims, we're a partner that has ease of doing business, and we continue to innovate in the services we provide them.

Affinity partners is kind of rounding out our relationships. These are real important relationships for us. We distribute renters products and our manufactured housing products. We have scale, we have great capability. We have long track records of delivering for them, delivering a great customer experience, and paying claims.

So, you get a good feel for our businesses and our relationships, and those strong relationships have really helped us to diversify. As Alan has talked about, Lender-placed has meant everything to Assurant in years past and it definitely has meant everything to the overall housing group. You can see here, in the past, about 85% of our earnings came from Lender-placed. Now, we were in a market-leading position, we had conditions that were driving certainly higher numbers, but we have really balanced out the business. We've been able to do that by driving 26% annual CAGR in our specialty clients and Multifamily Housing. That's fantastic growth. So, we're stabilizing the LPI business, we've had tremendous growth, and now we have a much better mix of business, as you can see here. So, we're excited about where we're headed, strong earnings, really much more diversified business.

We have this great story here, but we certainly understand we are a cat-prone business, some of our businesses, not all, but it's something that we pay attention to all of the time, and as Alan said, and Richard, we've made really good progress. From about six or seven years ago, our retention level was $240 million, it's now at $80 million. Now, our total exposure has come down, but we still are adding some new products and services that have some level of exposure. So, what we've done is we've taken a disciplined approach. There are a number of executives and team members across the Company that work on this all of the time. It is that balance—and I know you've asked us about it—it's that balance of earnings to risk. We feel like we're at a good spot, but it's something we're going to continue to look at.

I will say this, something that's really important, 36% of our placements are multiyear. That didn't exist before. People have also asked us, "Well, how do you get pricing stability? Are there partners willing to partner with you to offload some of this volatility?" There absolutely are. This year is the first time we've had five-year deals. We've had partners approach us saying, "We like the business, we'd like to help you with your challenge around managing your volatility," and so we've actively pursued those relationships, and we'll continue to look at this. Now, some of the future opportunities could include quota shares, which we've considered in the past. We also have been asked about aggregates. We're continuing to assess all of these things, but we think that we historically have performed really well in managing our retention and we're going to continue to focus on that in the future.

So, how would our program perform historically. Alan shared earlier the different storm scenarios and how things would look. Well, what's really important to note, buying down to this $80 million retention will really help us in those more challenging years, help us manage our earnings. To the far left on this graph is 1926. The great hurricane of Miami was one of the largest storms ever to hit mainland U.S. This was a year—and these are the top 10 storms, by the way, over the past 100 years, these are the worst storms over the past 100 years. It was not only a big storm, but it was an active storm year. So, our program would perform quite well in those scenarios, but I think what's important to note is that our net losses match what Alan was saying earlier—and this is the overlay of our book to these historical storms. So, we've made really good progress, we'll continue to look at opportunities to manage the volatility. We have a team and some of the executives that look at this continuously. So, more to come should we make continued changes here, but we feel like we've made tremendous progress leveraging our expertise.

So, how do we see the business going forward. Richard talked about this earlier, both Richard and Alan. We have done really well in delivering on our promise and commitments, and when you look at this slide, we think we can continue to grow our ROEs. Now, how we will do that is we think our combined ratios, as Richard mentioned earlier, in that 86% to 90%, those are terrific combined. So, again, look at other specialty-type P&C businesses, you're not going to find a lot of companies that can deliver 86% to 90% combined, and commitments to 17% to 20% ROEs, including cats. So, we feel really good about these commitments, and how we're going to do this is, one, stabilize the Lender-placed business, and we'll get into that in just a minute. That's going to be critically important and we have actually hit that point, we believe. Secondarily, continue to grow our earnings. We think we can grow earnings at 5% to 10% in everything else, specialty and all other, so that's an important point I wanted to make. We're going to continue to manage expense. That's been really important within the business segment. Richard has talked about the expenses that we've managed across the enterprise, but within the business, we continue to drive and focus on expense. So, when you think about all of these levers, we feel really good about what we'll be able to deliver. This doesn't contemplate any changes in the housing market, like Richard hit. We believe that should we hit changes in the housing market, there's potential upside. There will be need for more of our products, which certainly could give us some lift there.

Let's go ahead and transition into the businesses. I'm going to spend some time on Lender-placed and then Kathy is going to come up and talk about Multifamily Housing.

Lender-placed is one of those really important businesses that helps facilitate the lending market. We help to protect the collateral of the end consumer. We also help protect the collateral of the investor. In fact, when you think about what we've done, we've provided coverage for millions of consumers over the years and we've paid billions of dollars in claims, and we've been there for people when they really need us, and we're proud about that.

So, where do we see the business going forward? I just want to start with where we are today. When you see this slide, we talk about stabilizing earnings, and we have been stabilizing earnings over the past few years. Our rate of placement has declined. I think John had asked the question, John Nadel, and I think we get asked this question, "Where do you guys see, you know, a normal level?" I will say this, we're not going to be here today to pick a number, but I'm going to give you an idea of some factors. Delinquencies, as an industry, are considerably down, they're below averages that we've seen historically in the mortgage space. Additionally, our rates have slowed tremendously. Then, a final point, that the vast majority of our business today is not on serious delinquent borrowers, that's north of 80%. So, think about all of those factors, we feel like we're at a stabilization point. Like Alan said, there are people that need our products, they can't get insurance for some reason, maybe based on where they're located, maybe they've been canceled, so we feel like we're at a good place. Now, should the housing market decline—and let's go ahead and talk about that—we would be well positioned. The current stabilization, our rates are moderating. Also, when we think about our premiums to reflect losses, this has been something we've been paying a lot of attention to. We've been working with the states, we've been looking at some of the loss trends, we'll continue to look at that. We've had increases, we've had decreases, but this is something that will be important and we pay attention to it continuously.

Net operating income flat, and then I think the question was asked about capital, as well. We continue to dividend up excess of capital to Holding Company. In a housing downturn, we really feel like we'll be well positioned to support consumers and investors. Our platform is industry-leading, we continue to deliver for our clients, and I think we'll be well positioned to take care of the customers that need our products. Our expenses, we think we are much more efficient today than we were before, plus we're implementing some technology, that I'm going to talk about in a minute, that will make us even more effective and create greater leverage in a housing downturn.

Then, finally, the geographic mix in a housing downturn, what we saw last time, and we've seen through other cycles, the general geographic mix of the business follows the population. When placement rates increase, we're going to have policies distributed countrywide. That's generally how it has worked in the past and we anticipate that's how it will likely work in the future.

Let me move on to our next generation tracking platform. This is something that is really important. Richard and Alan have talked about this on the earnings call. As an industry leader, we continuously look at the market and continue to invest in our products. What we've done over the years, is we've engaged our clients, and our clients, we've worked actively with them to think about new solutions to take care of their customers in the most compliant way. What we recognized, there were a number of industry systems, client systems, even our systems, that weren't doing it in an effective way. We have systems that didn't have adequate history, we were overwriting data, and so it made it much more challenging for a good customer experience and it created multiple touches through our process. With this new system, we're going to eliminate that. We will have a holistic view of the customer that just doesn't exist today.

This isn't just a gooey over-the-top system. It's grounds-up. It's core data sources that give a full view of the policyholder, the property. Nothing like this exists in the industry. We'll have automated workflows with throughput, which will be really, really powerful and will drive efficiencies. Something else that doesn't exist today is the ability for the consumer to help view and manage their own insurance. It's not just creating some type of portal over legacy systems. They will be able to interact, see the history of their policies, understand where there was a lapse, and it gives a lot of power back into the consumer and the investor, and we're really proud of where we are with that. Now, where we sit today, we've implemented two clients, and we're going to begin a more active roll-out of clients on the system over the next three years. We view about two-thirds of our business being boarded on this system, and it's going to be really, really powerful for our customers who have been actively engaged and supporting us, and their end consumers.

So, summing it up for Lender-placed, a real strong business for us, market-leading position. We continue to invest in it, while managing the volatility of the cats that come from it from time to time, but we feel like it's really well positioned for future growth should the need arise.

So, now I'm going to go ahead and transition over to Kathy McDonald. Kathy McDonald has been with the Company for a few years now and she's driven great growth in our businesses. She recently joined the M-Com, and now she's here to tell you all about Multifamily Housing. Kathy?

Kathy McDonald:

Thanks, Mike. Good morning, everyone. That was a nice introduction, thank you. So, as you've heard, Global Housing has repositioned to deliver the same profitable growth and superior returns, and Multifamily Housing, I'm proud to say, is a very critical part of that. We've been delivering tremendous success, growing earnings, and over the past five years we've doubled our revenues, and we remain positioned for continued growth in the future with our performance.

Now, our value prop in this industry is that we partner with property management companies, or PMCs, and vertically integrated—excuse me, and affinity partners who are able to aggregate a large number of rental residents and provide them with a turnkey risk-mitigation process which allows them to manage the risk that the renters may cause for them, and also delivers a superior customer service to their customers. As Mike said, we are the original disrupter in this market, and today I want to share with you a little bit why our model is unique.

Over the past 15 years, we've built our market-leading position based on three advantages that we can provide our customers and their clients.

First is vertical integration. From underwriting to product development, claims, customer service, these capabilities are very unique in our industry, and these capabilities, combined with our infrastructure, allow us to assume a lot of the risk from the property management company clients that we have. We know that the leasing staff onsite within a property has a lot of responsibilities, including the requirement that they make sure every resident that moves in has an insurance policy and has a security deposit throughout the life of their lease. Our ability to assume that responsibility from them is critical and our turnkey processes do just that.

Second, our product suite addresses all the areas where a tenant- or resident-caused risk can cause problems for the property management company. When I talk about resident-based risk, that can be anything from a resident letting his bathtub overflow and the water goes down and causes damage to the unit below, or he has a dog that bit somebody, or he moves out leaving damage to the unit in excess of the deposit, or he forgets to pay his rent. So, our products take that problem away from the property management company and we assume that ourselves.

Third, the support that we have provided our clients and our customers over the years has been proven. Through tornadoes, hurricanes, fires, we have been there honoring our commitment to our customers, and at the same time we continue to invest significant amounts of capital into this product line so we can expand and broaden our capabilities.

The combination of these three advantages has made us a strong leader in the industry, and has also built a lot of customer loyalty with our clients' customers.

Let me give you a little more color around our product suite, because clearly that is a great advantage that we have.

We stand alongside our clients, the PMCs, and their customers from move-in to move-out. When a resident is moving in and signing their lease, it's understood that they must put down a security deposit to cover any damage that they may cause. A great alternative to the traditional security deposit is a tenant bond that we offer. It's less expensive and it's an easier transaction on move-in, and it provides a great competitive advantage for the property management company, and has also shown to increase occupancy for them, as well. For those PMCs that require their tenants to have renters insurance throughout the life of their lease, they can count on Assurant to know that our program is going to cover every one of their residents, because we don't reject any applicant in the PMC distribution. It's a guaranteed issue program, so that way they know everyone will be covered.

After move-in, we have the ability to make sure that those tenants do not let their policies lapse because they'd rather spend their money somewhere else, for example. We have the ability to track every resident's coverage and make sure it stays in place, and when a cancel is detected, we have the ability to outreach to the customer and remind them of their obligation.

Then, in the event that a tenant does move out leaving damage or unpaid rent, we also offer receivable management services that are specifically designed for Multifamily Housing debt and the unique facets of that type of debt.

So, all these products clearly give benefits to property management companies, but it's also very important to us that our products provide value to the residents, as well. For example, you take the tenant bond. This alternative to the traditional bond, the traditional deposit, greatly reduces the amount of cash that the resident has to come up with when they move in. Second, with renters insurance, that resident knows that all of his neighbors have coverage in case something goes awry, like the bathtub example. Third, the ability to access Assurant to purchase a policy, change your policy, file a claim is unmatched in the industry, and I can say that with a lot of confidence, due to our omni-channel platform. The ease of doing business with us, our transactions are simple, and many of our clients, or the majority of our clients actually prefer the digital options that we offer. For example, last year, we fielded over 5 million transactions and customer contacts in the renters distribution. That could be anything from a payment, a question, changing your roommate on your policy. Of those 5 million, nearly 70% were done without any human intervention at all. On top of that, 75% of the policies that we sold last year were done via the website. We do maintain over 150 to 200 customer service reps and licensed sales agents that are available for those people that still like to deal with a human person, but our omni-channel platform has truly been a competitive advantage in this market. With these competitive advantages, we have a lot of things going in our favor; that and our continuous commitment to continuously advance and improve upon our capabilities for our customers, and for our clients and their customers, it's important.

As you can see from this chart, the renters insurance market itself has grown 9% over the last seven years, whereas we have grown 20%. Clearly, we're outperforming the market. But, one thing that's been consistent throughout these seven years is our goal, and our goal is to provide the property management companies the cutting-edge solutions to minimize their risk, resident-based risk, while also allowing them to focus on their core business of managing apartments. So, with this goal, the property management company is protected from the typical types of risks that the residents can bestow on them, the sale and administration and monitoring of these processes is assumed by Assurant and not bogging down the leasing staff, and, last, the residents themselves have a convenient affordable option for meeting their obligations under their lease in the form of renters insurance or a security deposit. Those have been consistent, but we know that as consumer expectations evolve with technology, we have to continually advance our capabilities to keep up with them. For example, our digital platform is very robust, as I bragged about earlier, ease of accessing us, but we're continuing to enhance this. Recently, we launched digital outreach to our customers to remind them when their payment is late or their payment doesn't clear, and we're also experimenting a lot with virtual agents, as we think this will greatly improve the customer experience, as well. It's an iterative process to continue to keep up with the customer expectations. These options are also critical for Multifamily Housing specifically, and not just because the majority of our customers are younger, but it's kind of the expectation in the industry.

If you think about a resident who is moving into his apartment, he just came from Ohio and he has the U-Haul filled and he's got grouchy kids in the car, and as he's pulling into his new apartment, he remembers, "I forgot to get the renters insurance policy that I have to have before I move in." With our program, that's no problem. He gets out his cellphone, answers a few short questions, and in a couple of minutes he has the policy, and he also has on his phone proof of that coverage, so that move can continue uninterrupted. It's quick, easy, relatively few questions to obtain a policy.

So, what is our outlook? Well, as we've said, we've had double-digit growth and outperformed the market over the last several years, and even with a significantly larger business, as you can see here, we intend to continue growing at a rate of 8% to 10% over the next couple of years. We know this goal is impressive, but it's also very achievable, and how are we going to achieve that? Well, I'm proud to say that we have a topnotch national sales force that is continuing to expand our client base with property management. Mike had pointed out that there's a lot of white space in the PMC industry still, even though we are aligned with nine of the top 10 today, but we also are continuing to uncover new market segments. Property technology, banks, financial institutions, international expansion, they're all on the table, and we feel there's a lot of opportunity there.

Also, within our existing client base, I feel like there's a lot of white space there. Because, if you think about it, we're partnered with PMCs. That means that when every resident moves in, our product is offered to them, and if we can improve upon our convenience and integrate further with our PMCs, we have opportunity, and we've seen that our participation rates increase in that scenario. It's the same with our affinity partners, the more we integrate with them and provide a seamless customer experience to their customers, we get improved results. With regard to increasing persistency, which is also a way of driving growth, our convenient payment options and our ability to monitor and make sure that policies stay in force is greatly increasing our persistency, as well. We've had some really good results improving that. With the market trends showing that renters is continuing to be a popular option and our partnerships with the leaders in the industry, we feel we are in a very strong position to continue to lead this market.

Next, I want to share with you our Point-of-Lease program, which is just one sales delivery option that we offer to our clients. Point-of-Lease is a great example of how turnkey our processes can be. It's our next generation solution for sales and it's already shown significant improvement in the take-up rate that we experience at move-in. Utilizing technology, we embed the insurance purchase into the leasing process, resulting in a much more streamlined transaction. Again, this can be done via your cellphone and it takes about two minutes for the renter to obtain their policy. This also has the added benefit of allowing the renter to pay their monthly premium with their rent, which greatly increases persistency, and it also serves as a checkpoint upon move-in, to make sure that that renter, as he's moving in, has adequate coverage to meet the requirements of his lease.

So, at the end, the POL (Point-of-Lease) process benefits the resident, because it's providing them a simple method of buying and paying for their policy, it benefits the PMC, because it takes the responsibility of validating coverage at move-in and it moves it over to Assurant, and it benefits Assurant, because we're experiencing higher participation rates in our existing clients. Following move-in, because we are so integrated under the POL process with the leasing system, we have the ability again to continue to monitor every policy throughout the term of the lease to make sure that they don't lapse and they stay in force throughout the lease.

One other tangible example of innovation I'd like to share with you is what we call self-service for claims. Bob touched on this a little bit earlier, but I want to talk about it specifically with regard to renters, because for our business, you can't overstate the importance of the claims experience to the overall customer satisfaction and our ability to retain our customers. Our self-service claims process allows the residents to report their claim online, which greatly expedites the process and greatly expedites the time with which they get their payment, which of course is very important.

Let's say you are a resident, you just got home and found that your bike was stolen. You access our portal, answer a few very short questions on your phone, where did it happen, what happened, what was stolen, were there any witnesses, give us a little detail about what was stolen, the value, the condition of the bike, and you also have the option of uploading any documents which might help to expedite the process, whether it's a sales receipt or a police report.

Now, if this is a simple claim, this claim can be approved and paid without any human intervention, and even when a little human intervention is required, what we call a light-touch claim, we've seen, as Bob said earlier, our adjustors are 60% more productive. On top of that, our customers have embraced this option, with 80% of them opting in for self-service reporting. So, here again is another example of a customer experience improvement that benefits the customer, because they get paid quicker, it benefits the property management company, because their customers are happy, and it benefits Assurant, because we have much more efficient adjustors.

So, with that, I want to turn it back over to Mike to kind of close out our closing comments on Global Housing. Thank you.

Mike Campbell:

Great. Thank you, Kathy. What a terrific business. I love the slides, I love the growth slides. As you can see, as an organization, in Global Housing as a division, we feel like we're really well positioned for the future. We've been able to stabilize the Lender-placed business, we're achieving great growth in our housing and other specialty lines, we are generating really strong cash flows, and we continue to manage out the volatility of the business. So, for all of these reasons, we feel like we're, again, in a great position to grow the business going forward at the commitments that we're making today.

We really appreciate your time. On behalf of Kathy and I, thank you for your interest in Global Housing, and now we're going to go ahead and transition it over to Keith Demmings. Keith Demmings has been with the Company for a number of years. He's been driving innovation across the Lifestyle platform for that time. I met Keith about 12 years ago and we've worked on projects together throughout the years, but a strong business leader, a great colleague and a great friend. Keith, come on up.

Keith Demmings:

Good morning, everyone. From now on, I'm going to expect the same kind of introduction every time I get introduced, so that was terrific, thanks, Mike. Really happy to be here today. I spoke to everybody at our last Investor Day in 2016, and I'm really excited to share the progress that we've been making in the Global Lifestyle business, and in particular share the strong momentum that we have in the market and our plans to continue to drive double-digit growth as we move forward.

First of all, I want to ground everyone on the basics of the Global Lifestyle business. At our core, we connect, protect and support consumers' devices, their appliances and electronics, their automobiles and their financial transactions. We span three businesses serving more than 270 million consumers, we operate across 21 countries, and we have over 5,000 employees doing some tremendous work every day to drive the Company's growth.

First of all, we have our Connected Living business, which includes our Mobile business, which we talk about a lot as a significant driver of our performance in the past, and a business that has tremendous momentum as we look to the future.

Our second business is our Global Automobile business, which is now significantly larger than it's been in the past, thanks to the acquisition of The Warranty Group, and we do expect that business to drive significant growth for the Company as we move forward. I'll spend some more time on that later, but we're very excited about the potential in that area.

Lastly, we have our Financial Services business, which includes our legacy credit protection business in the U.S., which has been in decline for many years, consistent with the marketplace. We do see opportunities to grow that business as we look to create new products for the banking sector, and we've got a vision for long-term growth as that business completes its normalization phase.

Our focus today will really be on Connected Living, including and specifically our Mobile business, and then the Global Automotive business, as those really will be the two single drivers of growth as we move forward. As we look to the future, Assurant sits in a really unique position to capitalize on the convergence between the connected device, the connected home and the connected car, and we believe the evolution of our products and services will help customers get better utilization and enjoyment out of their devices and create better engagement and customer experience for our clients and their customers.

Now, I want to spend a couple of minutes on our past performance and really what we've done in the last three years, and our confidence in the future is grounded in the success that we've achieved in the past three years. Since 2015, we've effectively doubled the size of the Global Lifestyle business. Our growth has outpaced the market. We've delivered 12% compounded growth in our net operating income against a commitment at last Investor Day to deliver 10% growth. So, we're extremely pleased with how we've outperformed even our own commitments and significantly outperformed the market. If we layer TWG on, you can see the significant impact that we make, it contributed a 25% overall compound growth rate over the period. So, the organic growth has been strong, but we're much stronger, we're much larger, and we've got more opportunities to grow going forward.

Our growth in the past has really been driven by rapid growth in Mobile and a lot of market share gains through innovation and adding new clients. Really steady performance in Auto our business, it's been a great business, it'll be a greater business tomorrow, all while managing through the decline of the Financial Services business. So, we've been able to weather the storm of what was once a significant business for Assurant. It's certainly gone down a lot in the last few years. We've more than replaced those earnings with new innovative solutions for the future.

Over the last three years, we've introduced new products to the marketplace and created a significant amount of innovation, new services and new capabilities. We've added technology to steadily improve our core operations. We've added new distribution channels, new clients, new revenue streams in all of our major markets around the world. We've deepened relationships with our existing clients, which Alan talked about earlier, and we've invested in technology, much like Kathy described, to truly improve the customer experience and drive costs out of the system.

Last May, we closed on the acquisition of The Warranty Group, which was a significant milestone for the Company, a major contributor to our results in '18, but will be a bigger contributor to our results in '19, and beyond. In just nine months, since we closed the TWG acquisition, it's really transformed the way that we think about the Global Lifestyle business, but in particular our prospects within the Automotive space. Our detailed integration planning is paying off and we're delivering on our initial investment thesis, which we're very proud of. We've achieved three meaningful objectives with this acquisition.

First, we are, without a doubt, the leader in the marketplace of Global Automobile. We're very excited to have a second scale business and we think there's a lot of potential to grow. In the past, we've had Connected Living, which was extremely large and successful. Now, we've got a second business of similar size and scale, and it really doubles our opportunities to drive significant growth for the future.

Second, we've invested heavily in scaling our international footprint in key markets and we're really excited about the long-term potential that that creates. It gives us more infrastructure in Asia-Pacific, it gives a lot more economies of scales in markets like Europe and Latin America, and we've got a greater potential to cross-sell products and services through new distribution channels.

We've also been very excited to see the diversification of our earnings. If you look at the business today, we're diversified now by product line, more diversified geographically, and we've got significantly more clients, distribution channels and services. So, we're a much bigger, much stronger, much more well-diversified business, with better avenues for future growth.

We've really made great progress integrating the business since we closed. We've quickly integrated The Warranty Group into Assurant's global operating model, really functioning as a single team, and facing the market as a single team, which is paramount to retaining clients and retaining talent. I'm really proud of our job retaining the key talent. Not only have kept the employees, but there's some incredible talent, skill sets and capabilities that existed within TWG, and we're really pleased to see how motivated the team is to really drive growth for the future and how well they fit into the culture of Assurant. We've also protected key client relationships, we've renewed several clients, and we haven't had any client losses related to the transaction that weren't otherwise anticipated.

The value of the acquisition for me really came to life as we looked at launching our connected car product, which Bob talked about earlier. Really, looking at the effort that Assurant was making to drive solutions for the connected consumer, and combining that with TWG's incredible depth of knowledge, their 50-year history of direct-to-dealer distribution, the combination of those two things, I believe will be a powerful differentiator in the Auto business. It is ripe for change and evolution, and we're the company that will innovate that market. We also think there's significantly more areas to innovate that just haven't been unlocked in the current market today.

Importantly, TWG is meeting all of the financial commitments that we laid out. We delivered 50% of our run rate commitment at the end of 2018. We expect to deliver 100% of that commitment, on a run rate basis, by the end of 2019. So, that's the $60 million synergy commitment that Alan and Richard spoke about, and we're very confident with our ability to deliver that for our investors. The deal was also modestly accretive in 2018, as we had expected, and I would honestly say the integration is going as well as I had personally hoped, and, in some cases, I'm really more pleased than I expected in terms of how well our teams have come together. So, I'm very excited by what we've seen.

Even prior to The Warranty Group, we had always aspired to be a global company and not just a U.S. company that operates in international markets. Since 2015, we've significantly grown our international business to $1.8 billion in revenue on an adjusted basis. That now represents 29% of the overall Global Lifestyle business and is a material contributor of our revenues. At the same time, and equally or more importantly, we've driven the profitability of this business. We've increased profits by more than 2.5 times over that three-year period. Our organic profitability has grown by 15% year-on-year for the last three years. So, we're really excited about the momentum that we have, creating better, stronger financial returns internationally.

We really did this by executing our global playbook, and I would highlight three key areas that have driven our success.

First, we've an unwavering commitment on key markets. We've avoided greenfield market entry, and we've only entered new markets if we've got a substantial contract to drive our growth in that market, and that's been a very strong disciplined approach to new market entry, and preserving capital to drive profitability.

Second, we've brought our global capabilities to bear and really began operating more as a global organization to really drive our focus and execution to all of the markets around the world. As an example, we've deployed our supply chain leadership to really build local market strategies in every country around the world to make sure we've got optimal supply chain solutions, which vary greatly by market. That's resulted in us launching mini-training programs, mini-upgrade programs, deploying global asset disposition platforms, to really drive our position in the overall market.

Third, we've had a rigorous discipline around expense management. We operate now as three global businesses. We operate from a global point of view in terms of setting all of the priorities in investments around the world, so that we only make the best investments that will generate the most strategic and best returns for the organization, and that's a pretty big change from where we were three or four years ago and it's making a massive difference.

We're also spending a lot more energy locally thinking about optimizing the performance of our markets. We've repriced and renegotiated several client contracts in markets like Europe and Latin America, and we've had a really disciplined focus around increasing our regionalization to share our overhead across more areas to create more efficiency and drive more centralized back office operations, call centers, and all of the areas where we can take costs out of the model while still delivering excellent service. So, overall, we expect to continue to drive significant revenue and growth in net operating income within the international business and globally overall within Lifestyle.

Now, as we look to the future, I would say we're a much, much stronger business than we were three years ago, and we continue to see significant opportunities to expand, to continue to drive long-term growth within Lifestyle and for the benefit Assurant. Our business is literally twice the size that it was in 2015. In '15, we made $153 million of net income; in '16, we made $154 million of net income; last year, we made $298 million of net income. So, we're really pleased with the size, the scale and the growth that we've had, and we believe we can continue to deliver more than 10%, or at least 10%, as we move forward. To me, "at least" is "more than," but I may get corrected on that later.

Given the nature of our business, as Richard talked about, we do expect to see the results will not be linear. It relates to investments we're making in the business, it relates to client portfolio mix, and certainly the nature of the business could be quite different over time, but as Richard laid out, we expect to see a more significant amount of income coming through in 2019, as we fully absorb a full year's profits for The Warranty Group and also realize additional synergy values within that business. We think it'll be more modest growth in 2020, and then we'll see a further acceleration above our 10% level as we get to 2021, and as we look to the future beyond. If I look at it from a line of business perspective, we expect all of the profits to basically come from our Mobile and our Auto business. Both of those businesses will actually overachieve our 10% threshold, as we expect to see some declines in our Financial Services business.

As Richard mentioned, we'll give more disclosures on our net operating income. This is really important as we look at—the Auto business today is such a significant part, that we thought it was really important, as we're focused on driving the bottom line net income, to give investors better visibility to how much money we really do make in Connected Living, in Auto and Financial Services. You'll be able to see the Financial Services decline. More importantly, you'll be able to see the acceleration of profitability in Auto and Connected Living, which we think is an important factor for investors.

Our outlook continues to be strong in both Auto and Mobile. They both benefit from major market tailwinds and favorable competitive dynamics, which is something that gets us excited about the future of these portfolios. We see steady underlying product sales of new and used cars and new and used mobile devices. We see higher attachment rates on both categories as repair costs go up and as the underlying cost of goods go up. We see continued market share gains through innovation in these areas, through new entrants and through client consolidation that may happen in the future. We also see a significantly bigger opportunity in the Automotive space, which has been a very, very strong performer for us in the past and will be a better performer for us in the future. We also have a tremendous amount of accelerated earnings in this business, and we expect that acceleration to be more evident to the shareholders, as I later describe our embedded earnings for the group today. Overall, we believe we can deliver our growth rates, again, from a stronger base starting point, twice the size, with a much more diversified set of product lines and earnings pools.

Now, I'm going to switch gears and talk a little bit about Connected Living, and apparently have a giant sip of water.

Several years ago, we had a vision to disrupt the mobile market, particularly the mobile device protection market, and I could not be prouder of the effort and the focus and the execution of the team. We're very fortunate, we've got Manny Becerra here today, he'll be on one of the panels later today, but the team's just done an incredible job. This has been a monumental effort and we've delivered, as you can see on the graph, just some tremendous growth in this business. We've increased our subscribers by 46% over the last three years. More importantly, we've grown our net operating income faster than we've grown our subscriber base. We've grown from $64 million to nearly $150 million in profit in three years, which is pretty spectacular growth, if you strip out the benefit of TWG at the 27% organic year-on-year growth rate, and we couldn't be more proud of our accomplishments in that regard.

In the last five years, I would say that the way devices are sold, used and recycled has dramatically changed, which has created growth opportunity for Assurant.

Thinking about how devices are sold, carriers have transitioned away from device subsidies, they've moved to equipment installment plans, which has created more transparency to the consumer of what the underlying cost of the device is. As that's happened, it's driven up significant increases in attachment rates and demand for our products.

In terms of how devices are used, they've really become life's remote control. We use it for everything from entertainment to healthcare, to finance, to security, and as that's happened, it's really stimulated upgrade cycles, it's driven consumers to the next greatest devices to get better applications and better usability. It's also increased demand for protection products, as a consumer becomes more reliant on the device and wants more services, which I'll talk about in a second.

In terms of how devices have been recycled, we have really been a pioneer, or 'the' pioneer in this space in the last five years, driving upgrade programs, driving trade-in programs, and really creating a really strong market around used devices. This all starts back at the launch of the first upgrade program with T-Mobile in 2013. When we started the relationship with T-Mobile, we innovated with them in the market and we started a movement around making upgrade and trade-in a core central part of a carrier strategy. So, we're very proud of the results we've achieved, but the impact that we've had on our clients and on the end consumers.

At a client level, we're partnered with the industry leaders. We're partnered with the companies that are trying to innovate, and that innovation allows us to add services and create additional value for the clients, for the customers, but also for our shareholders. So, we're very excited about our position as an innovator in this market, particularly because this market is so ripe to change. We've won several new clients, which I'll talk about later. Those clients are still ramping up. This is monthly pay business, it takes a long time to reach a state of maturity, so there's a natural ramp-up that we're seeing and we expect that to continue for the next few years.

We've expanded relationships and added a lot of profit pools. We'll talk later about our renewal of T-Mobile, but what we do for them today is significantly more advanced than what we did with them five years ago, and we're going to continue to change as they change, to create new ways to serve. We've got great global traction with our relationship with Apple, and we'll talk about that later, but we continue to foster that relationship and try to find unique ways to serve them. We're going to transform, and have been transforming, our operations to drive better CX(4) and drive efficiency through data analytics, through digital investments, and we've seen great traction with Manny and his team to do that.

Okay, as we look forward, we really do feel good about the underlying trends in this market, and we can see it as we look back, and we expect continued evolution as we move forward. We see a few factors behind the trends that really support a strong, robust device protection business.

First of all, we see really steady device sales in the market both for used and new phones. We see rising attachment rates for our products over time, and that's really a result of increased complexity of devices, the user dependence on the devices, as well as the device prices themselves. To put it in perspective, in terms of attach rates, back in 2010, as it shows on the graphic, we would have been way below 50%, in terms of an industry average, for attach rates, and today we're significantly above 50%. There's been a really meaningful increase in attachment rates over time, and we'll talk about that in a second.

We also expect 5G to drive upgrade volume. As Alan mentioned, it's not implied in our future outlooks financially, but it's certainly an upside that exists in our business. If we see additional upgrade volume coming through, that gives our trade-in business an opportunity to create more value for the customer and for our clients.

We also expect to see continued innovation, as I mentioned, that will drive opportunity as we move forward, and you can see some of that innovation on the graphic as we look at the evolution of the product set.

So, as I said, attachment rates have driven considerably up over time. The products have evolved dramatically. You can see on the graphic, in 2010, it was basic handset protection. In 2019, of course it includes the core of device protection, it includes data services, upgrade capabilities, it includes things like Pocket Geek, which is an on-device diagnostic app, personal technical support, embedded AppleCare services. That's created more value for the consumer, but it's also driven the price point up significantly. We're looking at price points today that are nearly double what they were in 2010.

(4) Throughout the presentation, "CX" refers to customer experience.

But, if you think about what I said earlier, we've seen attachment rates grow dramatically, even while we've seen pricing nearly double, and why is that? Well, it's because consumers are driving more value from their devices, they want to protect those devices, and they want other services that protect the experience and the usability of that device, and all of that is a really strong trend line as we think about what the future can look like in this area.

Just to give the investors a perspective, in 2010, we made 100% of our profit from underwriting and administering device protection programs. Today, we make more than a third of our profit from services that did not exist in 2010. So, that's a new data point for investors. It's become a material part of our business and it's also driven a lot of growth in our revenues and through innovation.

As Bob mentioned earlier, we've got a very broad value proposition in this space, we've been investing in it for a decade, and we feel good about the value we create for our clients and for our customers, and we've continuously invested in core capabilities, like tech support or supply chain, and other areas, which I'll talk about in a second. We've also worked very hard to evolve our products, through things like embedded AppleCare and personal technical support, while still investing in future capabilities, like digital identity protection and the services that wrap around the connected home. So, we really believe strongly in how do we scale our core administrative capabilities, invest in new products that evolve our current product set to the benefit of our clients, while still investing R&D dollars and intellectual capacity to drive the next generation of solutions for the future.

I'm going to spend a bit of time now talking about a couple of areas that I think are really important to Assurant, our repair and logistics operation, our trade-in and buyback business, and premium technical support. Luckily, we've got Craig Thole here. Hopefully, you've had a chance to see the demo from Craig. He's done an incredible job building up this capability for Assurant.

First of all, our vertically integrated supply chain capabilities continue to be a significant differentiator for Assurant and a value driver for our clients. They provide more ways for us to serve clients. They also give us more control over the consumer experience, which we feel is very important in this business to serve our clients. It also generates unique revenue streams and new profit pools that wouldn't otherwise exist. As an example, we use supply chain services certainly to support the core device protection business, but we also use these services to provide additional value-add to our clients, things like forward and reverse logistics, device repair solutions, inventory management, trade-in programs, upgrade programs, asset disposition services, all of which we do on a fee-for-service basis, and it gives us more ways to leverage our core to create new value, but also, importantly, to drive our profitability for the future.

In the world of today, obviously, everybody understands many of the claims are accidental damage claims. Certainly, we have a lot of loss and theft claims. But, in terms of accidentally damaged phones, given how important the phone is to the daily life of all of us to keep in touch with our family, with our kids, with our work, it's more important than ever to give consumers choice and convenient options to be able to get their phones serviced. So, now we've really invested in our claims fulfillment platform to do just that, to truly put the back the power back in the hands of the consumer. Today, a consumer can certainly get a replacement device shipped to them seven days a week, and that'll show up the next day. As Bob mentioned earlier, that's a very good option for a lot of customers. We also offer our customer an opportunity to upgrade their phone right at the time of claim, which is quite a new innovation in the marketplace, to make it easier for them to move into the next device. We've also invested in partners that can give us options to provide customers walk-in repair solutions, so they can get the phone fixed quickly in a repair facility near them, and give them another convenient option to get service.

In addition to that, we've invested heavily in building world-class operations for our supply chain business. When a device enters our facility, now, through automation, we intelligently route that device to the appropriate repair line. As the device moves through the process, we diagnose all of the issues that are wrong with that phone, not just the obvious broken screen or camera that may not be working, but everything that's not working, to ensure that we can bring that phone to a like-new quality standard. We use a lot of automation in our process and we use a fully automated robotic functional and radio frequency test to test more than 60 functions within a phone, so that when phone leaves our facility and gets back in the hands of a customer, whether to satisfy a claim or to get it resold in a secondary market, we need to make sure it's a like-new standard and the quality that our clients would expect.

Another exciting development in the supply chain side is we've become an approved facility for Apple repairs. This happened at the end of 2018. I'm not sure if we formally mentioned it in the market, I don't think we did. We're very pleased of how our relationship with Apple has evolved over time. We can now perform many of the repairs on the Apple devices that get traded in or upgraded into our partner stores. It gives us more control over the timing of that process and it allows us to extract better economics as we move those phones into secondary channels.

To put our operations scale in perspective, we processed 24 million devices over the last three years. As Alan mentioned, it's been relatively stable over that period of time. Our goal is to constantly evolve our supply chain. The same way we innovate our products, we innovate our operations, we innovate our supply chain capabilities, all driven around giving consumers convenience, choice and, ultimately, high-quality repairs and best-in-class phones.

Now, I want to talk about why we think trade-in programs will continue to be important to clients and continue to create value for Assurant.

At their core, trade-in solutions encourage customers to upgrade to the next generation of devices. As we look to a world of 5G and the 5G network standard, we expect trade-in offers to become more prominent in the future. 5G ultimately is going to enhance the underlying performance of the mobile device. It's going to improve the speed, the latency, the capacity. It's going to allow consumers to do more with new applications that would not be supported on the 4G network. As a result of this, a couple of things are going to happen. Consumers are going to look to upgrade phones to get that next generation service, but also the clients are going to look to upgrade those devices to improve their retention and also market them additional products and services. So, as a result of that, the trade-in value that a consumer can get from trading in their current device becomes an important part in the economic equation of how to motivate a customer to move into that phone.

We've got a proprietary device pricing engine that we use at point-of-sale with our carrier partners that looks to real-time supply and demand, to make sure that we can provide the optimal maximum price point to that consumer, to really try and stimulate a trade-in, to help our partners ultimately upgrade that customer or potentially win a new customer from a competitor, but we've got to do it intelligently, we've got to make sure that we can resell that device in the market at a margin to make that offer viable. So, that's a really, really important part of our business. We also have an asset disposition algorithm, that we've invested heavily in the last few years, that looks to all of our global disposition channels, not just in the U.S., but all the high-value channels we have around the world, to tell us where is the best place for us to sell that device, so we can move that produce quickly and we don't sit on inventory.

So, this has been a significant game-changer for us. We think we're doing an incredible job in this area for our partners and we expect, as the market evolves, this could create significant opportunities for growth.

To put this in perspective for scale, we sold $500 million of used phones in 2018. In essence, we are a market leader in a space that is really growing globally and could become more relevant over time.

Now, I'm going to switch gears and talk about Personal TechPro. Hopefully, you had a chance to see it. I'm really thrilled with the effort of the team over the last few years to really build this capability into something that's world-class and market-leading. As connected devices become more complicated, there's a lot more interoperability, we want to help consumers get the most out of their connected devices, but also their entire connected home. So, our focus is not just on the mobile phone, it's really on anything that connects within the home, to really increase the customer experience and the usability. We've had many customer deployments with clients and the experience has been extremely strong. We've got a 98% resolution rate and our customer satisfaction has been 96% or 4.81—they rounded it on my slide, but I promise you it was 4.81 out five. So, we're really, really excited about the progress we've made, and I'm going to show a quick video now to bring it to life.

(video presentation)

Okay, final comments on Connected Living, and I think this is a very important slide. I really just wanted to highlight the momentum that we have in this marketplace, and in particular in the two most important markets in the world. This may not be well understood by the investors. Obviously, the U.S. market is clearly the leading market in the world, but Japan is by far the second largest market for mobile device protection worldwide. So, these are the two most important markets and I think we've made tremendous progress in the last few years, and I'll highlight a couple things that drive that.

First, we launched several new clients in the U.S. marketplace, which we're really excited about, it gives a lot of confidence in the future, and we're certainly winning more than our share. I mentioned that we've embedded AppleCare services into many of our client programs, which has been extremely positive for us. It gave us a strong first-mover advantage. It continues to set Assurant up as the innovator of the market. But, in addition to working with Apple in that respect, they're also a client, as we work with them to support the launch of AppleCare Plus with loss and theft. That was rolled out last fall by Apple in all of the Apple Stores, on apple.com, and also in BestBuy Stores in the U.S. So, we're really excited about our partnership and what we've been able to do in the last six months with Apple.

We've also become the partner of choice, as Alan mentioned, in the cable space, partnering with both Comcast and Charter, as they've rolled out the Xfinity and Spectrum brands, and we really built a comprehensive solution to support their launches into the market, and, again, really excited about what that means for us longer term. These are really significant market leaders and as we think about the connected home, they certainly create additional opportunity.

We've also supported Verizon as they've launched Visible, which is their prepaid Internet-based brand in the marketplace, and this is a really significant opportunity for us. Verizon is obviously a marquee client globally in the mobile space and we've got a significant opportunity to continue to work with them to create new solutions to serve their customers.

We've also strengthened our presence in Japan. I mentioned it earlier. This is a $4 billion market, we estimate, for device protection. It's a really meaningful market, and it's now a really meaningful market for us, and I think this is a very important point as we look to the future.

We partner with KDDI in Japan. They're the number-two carrier in the market. Again, we work with Apple to create innovation in that market to really create something new and different for KDDI's customers, really leveraging our global capability with an incredible team locally in Japan to really drive execution and create value. Not only are we excited about the relationship that we had today, but, more broadly, we're excited about the Japanese market and also Asia-Pacific and how this allows us to fuel our growth for the future in the whole region. We're really, really pleased with that progress.

Finally, I want to talk about T-Mobile really quickly. Alan mentioned it earlier, this has been a major partner for Assurant since 2013. I mentioned our innovation with them with the JUMP! program. We've since launched many iterations of their device protection program. Most recently we launched a new product that includes AppleCare benefits; it includes Personal TechPro for all of their consumers; and many other things. We're really pleased that we've been able to stay in lockstep supporting them as the uncarrier and really being flexible to change and meet their needs as their customer needs have evolved.

We've renewed the client for a multiyear contract at the end of 2018, so T-Mobile has signed a renewal agreement with us, which is very exciting. I don't know if that was widely understood before today. We've also expanded the relationship and will be taking on T-Mobile's Metro by T-Mobile business later this year as well. I think it's a really important milestone for us.

It's a significant client. Any time you can renew a client of that size for a multiyear period, it tells me a couple of things, right. It means that we're doing a lot of things well that's served our client and served their customer and it gives us a lot of confidence for the future as we look forward. We can talk more about that, I'm sure, in Q&A, but we're very excited about it.

In conclusion, we've got tremendous momentum in the market and very favorable market dynamics, which we think support a great vision for growth.

Okay. Now I'm going to switch gears and bring this home, talking about the Global Automotive business. First of all, I am extremely excited, if you couldn't tell earlier, about our Automotive business. I couldn't be more thrilled to have such a strong second growth business for the Company. Auto for us has always been a really strong contributor to revenue and net income. It's driven significant organic growth. We have had 14% organic revenue growth in the Auto business over the last three years. We've had 9% organic net income growth, so it's been a really strong, steady performer.

With TWG, though, we are now undoubtedly the global market leader in terms of the amount of scale that we have in this business, covering 48 million global automobiles around the world. That's up from 11 million just three years ago. We are more than four times the scale that we were and we already had a significant business at that time. 2018is three times the revenue and profit that we had in 2015, so, again, we've just scaled this business tremendously and we couldn't be prouder of the spot we're in and the growth that we can achieve moving forward.

We believe that we've got the scale, the talent, and the capabilities to drive investments and really change this business for the future. We've also got a very broad set of products, the deepest roster of clients, and the broadest set of distribution channels, which I will talk about later. As a reminder, in the in the Auto business we sell vehicle service contracts, we sell GAP, we sell other ancillary products like tire and wheel, vehicles theft protection, but by far and away the primary product is vehicle service contracts. It represents roughly 75% of our revenue, so it's the core product that we're investing in the heaviest. It's also the most important product for the dealers that we support.

We provide all of the underwriting services, claims and customer services administration, and field training support solutions to really drive the overall performance of the business, and we've got a vertically integrated solution, which today is really at scale. In the past we didn't have the full scale that we do today, so I think that gives us a much stronger competitive position for growth. It also gives us more flexibility to serve our clients because we have a broader set of solutions, products, deal structures, capabilities, and more ways to be flexible in our orientation with those clients.

Our ultimate goal is to help our partners drive superior growth and we believe we are well-positioned to do that.

Similar to Mobile, this has got very favorable market dynamics as we look to the future. We see steady auto sales over the long-term with opportunities to innovate as this market continues to evolve. We are the market leader in this space, but we certainly have lots and lots of upside to drive growth in market share gains. There are a lot of competitors in this space. It's highly fragmented. We by no means have a dominant market share of the overall market and we think there is significant opportunity for upside for us. We believe we've got the right to win, the scale to invest, and the commitment to innovate, and we really believe those are going to be the pillars that'll drive this business forward.

We think automation and innovation create untapped potential for the future as this business hasn't been as quickly evolved as, for example, what we've done in Connected Living, and we think there's a lot of value to be unlocked as we look forward.

The business is also built on a very equal balance of new and used vehicles. It's roughly a 50/50 split, which we think gives a really good natural hedge. If new car sales start to drift, used car sales typically pick up and we've got an equal balance between the two. We think that puts us in a really nice position in this business. Not only do we see growth in the U.S., but as Bob mentioned, we see growth internationally. There's a significant amount, as you can see on the graphic, of vehicles sold outside of the U.S. It's underpenetrated and we believe it can generate a significant amount of growth for the future.

We're dramatically more scaled today internationally in Auto than we ever were before. We are in markets like in Europe and Asia-Pacific for Auto today that we weren't in in the past, and we believe that scale will allow us to generate growth. Today, international represents 8% of our in-force covered vehicles. Interestingly, it also represents 8% of our net operating income, so the economic performance of the international Auto business has been at par with the Global business, which is a really good indicator of future economic performance.

Another interesting dynamic is this strong demand for vehicle service contract. Again, similar to what I described in Mobile, you can see over the last several years attachment rates have grown from the high 30s to the high 40s, so very material increase in attachment rates over time, which has largely driven a lot of the growth in this business.

It's really been driven by a few factors. As we think about consumers, they're keeping their cars longer, they're taking longer auto loans, there's a better awareness of the cost of repairing vehicles, which has clearly risen over time, there's more embedded technology, there's more reasons for consumers to want to protect that asset, and so that's been a really key factor.

But also for dealers, the margin in the car business on selling automobiles has gone down over time, as everybody knows. As a result of that, there's been more focus on other products and services to drive value back for that dealership. If we look back to 2010, 15% of a dealer's profit was from finance and insurance products. Today, that's 25% of their profit. It's a fairly material increase in the importance of F&I products to a dealership, dealing with decreased margin and auto in the automobile sector. With consumer demand going up we're seeing tremendous increases in attachment rates.

One of the other exciting things in this business is that we've got a leading position across virtually all of the distribution channels that exist in the auto space. In the past, as Bob mentioned, we were largely focused on the third-party administration channel and now we are partnered with significant players across all of the channels. We deal with 6 of the top 10 national dealers who we believe are ultimately the market consolidators. We've got a very robust direct-to-dealer business where we partner with more than 5,000 rooftops. We've partnered with 7 of the top 10 third-party administrators in the U.S. today. This continues to be important to us and has actually become larger thanks to the acquisition of The Warranty Group. We deal with 9 of the top 10 OEMs around the world and we believe the OEM channel creates a significant amount of opportunity, particularly in international where we've got a really good track record of performance with many of the OEMs.

We also see long-term growth in several emerging channels which we'll talk about on the panel later. But suffice to say the depth of our clients and the breadth of our distribution is a significant competitive advantage and give us a great opportunity to drive growth going forward.

Now I wanted to hit on a few economic highlights for the Auto business that I thought would be useful. First of all, this is single premium business. It's sold up front, paid for up front, and typically it's financed along with the dealer auto loan. We typically sell 3.5-year policies on used cars and 6-year policies on new cars. As a result of that, it's really long-tail business that's got a significant amount of delayed earnings built into it, particularly on the new cars. If you think about a six-year policy on a new car, most of the premium wouldn't start earning until after the manufacturer's warranty expires, which let's say on average is a three-year period. So there's a significant amount of delay in the earnings relative to the new car business.

As a result, we've got a tremendous amount of embedded earnings in this business and it's one of the things that's exciting about the Auto business. The UPR (unearned premium reserves) on the balance sheet at the end of 2018 was $7.8 billion. That is four times our net earned premium in 2018. In simple terms, we've got four years of embedded profitability that's already been written that's waiting to earn through our financials over the next four to six years. That's a pretty exciting spot to be in when you try to predict the growth of the business. A lot of that growth we can see sitting on our balance sheet today and we can model that and be fairly accurate with how we look at this business going forward.

The other interesting factor is that we're growing. Our net earned premium was only 80% of our net written premium, so we have not yet reached a state of maturity in this business. In a nutshell, this business is growing; we've got four years of embedded profitability sitting on our balance sheet; we're now the global leader in a really attractive market; we've got the scale and the commitment to make deep investments; and we see really positive market traction and market dynamics that create growth opportunities for the future.

Another interesting fact and probably lesser-known is that this business operates more like capital-light fee income than it does typical P&C insurance or risk business, which may be surprising to some. About two-thirds of our gross operating revenue, so the money that we really have available to pay our expenses, two-thirds of that comes from fee income. The lion's share of our revenues are from fee income. Less than 15% of our gross operating revenue actually comes from the underwriting profit that's generated from the business itself which gives us less volatility as we look to the future and predict our results. It's also got fairly low-to-medium capital requirements as you compare it to other typical P&C business. The majority of this business is written as a service contract and then it's backed up by a contractual liability policy, which, ultimately, creates lower capital requirements than our full insurance products.

Typically, our client contracts are actually structured in a way to try to reduce the volatility to Assurant and limit financial exposure around claims. A lot of this business is actually reinsured to our partners and that's why we retain so little of the ultimate underwriting profit, but that's also why we've got more stability of earnings and it operates much more like fee income.

Finally—and I mentioned this earlier—we truly are committed to reinventing the way the Auto business is served with operational transformation at its core. We're currently deploying a state-of-the-art cloud-based claims administration system. This has been in development by TWG for many years. They have successfully deployed the solution. They've converted many clients and some large clients to the platform. We expect to have all of the TWG business converted this year in 2019. This will be our global platform. We believe it's a competitive advantage. We think it's got better capabilities and more efficiency than what we've seen in the marketplace.

Similar to Mobile and Multifamily Housing, we're also investing in dynamic claims management to use data analytics, to reduce fraud, and speed up the claims processing, which we'll continue to do in the Auto business as well. We're investing in customer and client portals, which you would expect. One of the interesting things in the Auto business is that most of the claims that we manage actually come through our dealer partners. They would call in the claim on behalf of a customer when the car is in their service shop. We've got to equally invest in customer-facing technology, but also client-facing technology to make it easier for our partners to submit claims, get approvals, and make it easier for them to do the job that they're doing every day.

We also see untapped opportunity in data and analytics. We've got the biggest base of data available in the market because TWG has been in the auto space for more than 50 years. So we believe there's a lot of untapped potential in the data space and clients rely on that data every day to drive their financial performance, to evaluate their cost to claims between their dealerships, to look at the financial performance of their reinsurance companies. The more we can tap into the data to create better usability and more insights for our clients will be critical.

We're also investing in new things like virtual inspection and Pocket Drive, and I'd encourage you to speak to Chad on the break as he will talk more about what we are doing in that regard. In a nutshell, we really believe we've got the appetite to make investments. There're some game-changing moves we can do operationally to improve the customer experience, drive efficiency, and ultimately improve our value proposition for our clients.

In summary, I'm really excited about the growth prospects of the Lifestyle business, as we've talked about. We expect at least 10% NOI growth over the next three years. We see favorable market dynamics and common themes. I mentioned underlying product sales are strong; higher attach rates continue to occur in the market; the markets continue to evolve, creating robust opportunities for Assurant. We continue to see strong progress in Mobile and expect to continue to drive market share gains. We plan to unlock significant potential in the automotive space. We continue to mature our International business while driving financial disciplined executed results. We're going to improve our efficiency through operational transformation, and, overall, we expect to drive market share gains across all of our business by focusing on the customer experience and innovation.

Now I would like to turn it over to Bob to introduce the panel and talk more about what we are doing on the innovation side and hopefully some exciting areas for discussion.

Bob Lonergan:

All right. Well, this should be a great session. To my left I have four of our most creative, innovative minds here at Assurant who've been really driving all these innovations that we've been discussing today. Hopefully when we're going to talk about the product side and the capability innovation, this will help really bring it to life in some of the areas that we've been discussing, like the Connected Car and the Sharing economy, but also other areas, like CX and digital that we haven't gone into as much detail on.

I have Manny Becerra who's our Global Leader of Connected Living; Paul Sims, who's leading our Digital Auto; Francesca who wears many hats, but one of which is driving our customer experience transformation; and, finally, Kunal who I referenced earlier who's really created and driven our Sharing economy business.

Let's get going. Manny, as kind of our leader for Connected Living for over the past decade, please tell us about the vision around the Connected Car and what makes us so excited about it.

Manny Becerra:

Great. Well, this is an area we've been interested in for a long time and it's exciting because the automobile industry is changing, the technology is evolving. It makes it very fascinating the way people think about cars, how they intend to use cars. It's just a fascinating marketplace.

With technology, innovation, comes complexity and with complexity comes the opportunity for us to solve products for consumers. You might remember the day, if you ever bought a new car, coming through that process and being given your one-hour tour of the car and everything you could do with it, and 10 minutes later forgetting how to do something. It's only getting more complicated for the consumer, so this gives us an opportunity to solve that problem for them and it's very much aligned with the way we viewed the evolution of cell phones for consumers.

Keith, talked a little bit about how we started off with just basically protecting the cell phone, the mobile device, but as smart phones began to become adopted and the adoption rate went up and the functionality increased, consumers looked to people like Assurant to help them understand how to fully optimize the use of the phone. The same thing is happening in the auto space. It's an opportunity for us to help consumers with adoption.

We talked a little bit about PocketDrive as well, and PocketDrive becomes the vehicle for us to begin that process. All the features and functionalities were previously explained, but just to give you an idea, again, we can help consumers onboard when they need a tip or trick on what they can do with their car. They have that when they will monitor the car. When there is a diagnostic event we can simplify it for them and make ourselves accessible through our tech support line. When the moment comes when they actually have a problem, we can direct them in order to get that problem resolved.

So, it's just a great space in that regard and an exciting opportunity to apply many of the same capabilities we developed for Mobile.

Bob Lonergan:

That makes a lot of sense. Why do you think we will be successful in this space?

Manny Becerra:

There're a couple of reasons. Number one, I'm excited—and Keith talked a little bit about this—the acquisition of TWG and how that's really transformed our Automobile Service business. If you look at it, when you combine what Assurant had previously, together with the acquisition, we have accessed over 12,000 dealerships that are selling policies for us today and that opportunity to combine it with our vehicle service contract, we're able to deliver a product that gives instant value to the consumer combined with the vehicle service contract.

Bob Lonergan:

A really good example of product innovation here at Assurant, one of the things I want to dive into is digital auto. Paul, let's just start with when we say digital auto, what do we mean?

Paul Sims:

Sure. What we're talking about is how vehicles today are not only sold at traditional brick-and-mortar dealers, but they're also being sold online through a variety of venues. The types of products that are being sold into these channels are the same ones that Keith had talked about—maintenance contracts, vehicle service contracts for mechanical repair and GAP products. The same things we've traditionally sold are being sold in these new channels.

Bob Lonergan:

Walk us through the digital auto landscape.

Paul Sims:

Sure. There are about five different categories of digital distribution that we see. We see three of them that are particularly active. The first one of those is the peer-to-peer market or private party auto sales channel. If you think about how you sold a car to another consumer, traditionally you would put an ad in the paper; you'd meet up somewhere, hope that it was safe; and then you'd have a very messy paper and lending process to go through to figure out how do I get the loan, who signs where on the title, etc.

Today there are several platforms out there, digital platforms, that help you through the advertising, the test drive, that financial transaction, and even the service contract process, and they make it all very smooth. That's a space that we see a lot of activity going on. An example player here that we've partnered with is Shift. They are a Silicon Valley-based company with a $400 million valuation and they are going after this market.

The second category we see a lot of activity is online-only dealers. Think about someone selling vehicles strictly online, no brick-and-mortar presence. Just like you buy things from Amazon, you purchase online. That space is very, very active.

Then the third category that we see a lot of activity is the subscription space. This has been talked about a couple of times earlier today and that's where a consumer is paying a fee for access to a vehicle, and all the services you need for a car, outside of putting gas in it, are provided by the service provider. The insurance, the maintenance, the mechanical repair, all those things are covered in that one fee, but you don't actually own the vehicle and it's a short-term commitment. Somebody in that space would be Ford Canvas that we partnered with.

Bob Lonergan:

That's a great overview of digital auto. When we think about those partners in this space, how are their needs similar or different from our partners today and what sets up Assurant so well in this sector?

Paul Sims:

Sure. We see certainly some similarities there. They're still trying to, at the end of the day, attach one of our products to each car sale that they can because it drives their gross profit for sale. But we do see some differences and some needs that they have that are a little bit unique. The first one is an understanding of their business. These companies tend to be less than 10 years old and, in many cases, less than five years old. The executive teams typically don't come from an automotive background and, as of yet, I've never met one that came from an insurance and warranty type background. They're learning what their business needs as the business evolves and they look to us. Our team has deep experience having built multiple automotive marketplaces, having 60 years' experience in the company with finance and insurance products, and they're looking to us for help.

The conversations we're able to have versus many of our competitors in the space are just very different. It feels like an advisor conversation as opposed to a vendor conversation. They're looking to us as how do we get attachment, how do we drive these products into our consumer's hands, what should the product mix look like? That's the first key one that's pretty different from what we see with the traditional dealer in terms of needs.

The second one is speed. These businesses move at a speed that is unheard of, certainly in our industry, but even in the traditional automotive industry. When they meet with us, they're typically expecting us to say we'll be ready to work with you in 6 to 12 months, because that's what they've seen with other providers; there just seems to be not a lot of speed. We're able to launch them much quicker than that. We had one client, if I could share one quick example, that came to us with a product need in the middle of December and it was a new product that we hadn't offered before, and they wanted to go live by the end of January. That's 45 days, including holidays, and we built the product, turned them live and had policies live by the timeframe that they were looking for. That's unheard of in our industry and that really appeals to the clients when they know we can move that fast.

There are two other areas that we also see, one is flexibility. We are known in this space as being the provider that customizes products that fit the needs of the client. We don't approach them as many players in this space do and say here's our shelf products; which one would you like. We actually listen to what their needs are and customize the products to meet those needs. That's where that understanding and product flexibility fit together nicely.

The last area that these players need that is really critical is around customer service. If you think about having an online business, your five-star reviews are critical to your business. These players are new, right? They don't have 10-, 20-, 30-year track histories to convince consumers to come in. They don't have a large dealership on Auto Row. They are strictly online and their reputation is everything to them, so they look to us to not just meet the bar but to exceed it and to drive additional customer feedback that's positive.

Francesca Luthi:

Yes. Paul, I would just add that certainly is an absolute and critical point here because if we think about what we've been doing, I mean, we understand the drivers of what makes a great customer experience. We work with, as you heard, some of the brands that have defined what excellent looks like in terms of Amazon, Apple, and Quicken across the board, so we're able to bring that skillset and that understanding along with the decades of auto experience. With that comes a wealth of data, a really deep understanding around the customer pain points, and we can bring that to them very quickly.

I'd also say that applies even more so even to brick-and-mortar dealerships. Since acquiring TWG, we now have about 12,000 dealerships across the States, and if you think about it, right, the car buying experience fundamentally hasn't changed a lot through the years. You go to a car dealership, and you've probably done some research upfront; you pick your car; and, as Manny said, you do your onboarding; you go into an F&I office; and you're trying to understand what products and services may be a good fit.

What we can do is help them think about the customer experience and make that a real competitive differentiator in a market that now has a lot more competition and a lot more products. We can optimize, again, that experience from the sales process all the way through the claim. We've seen that over time that can drive repeat business, certainly to the dealership, as well as better loyalty over time.

Bob Lonergan:

Paul, I want to come back to something you said around speed. Every company kind of our size wants to move quickly. You're referencing 45 days here. What allows us to be able to do that? Why do we feel like we're differentiated or unique there? Kunal, after Paul is done, feel free to chime in too because I know you have to leave quickly, but I'd love to have you kind of elaborate on that.

Paul Sims:

Sure. I think part of it is going in with a mentality and an understanding of how these digital businesses operate; means we're approaching it with a very different mindset. We're not going in saying we're going to talk to this client for several months and then launch next year. We're going in saying this client is going to expect something different. The going in mentality is very different and that, I think, sets you up for making your processes align with what you know the expectations are going to be. That's, I think, one underlying thing.

I don't know, Kunal, what your thoughts are there.

Kunal Malhotra:

For us, I think it's because of our innovation that we have at Assurant that allows us that empowers us to be innovative and be responsive. I think the other piece is even as we're building new products, we're getting to lever some of the core systems and capabilities that we have, which other organizations might not have, which makes it easier for us to roll out new innovative products in a relatively short amount of time.

Bob Lonergan:

Got it. Super helpful. Paul, I get the landscape. I get what their needs are. There're really interesting companies out of Silicon Valley, smart, talented entrepreneurs. But how big can this really be? How do you think about the size of the opportunity?

Paul Sims:

Sure. First of all, it's one that it's a space that's evolving quickly. There are players that 18 months ago I wasn't sure what their future was going to be that now are thriving. So, the market is constantly evolving; the business models are changing as they're figuring things out. But we see this space over the next 24 to 36 months, as a $400 million market, but it's growing very quickly. Most of these players are double digit to triple digit percentage growth each year.

The initial size isn't as large as some of the other markets that we are traditionally playing in, but the growth is so fast that we see it eclipsing things very, very quickly.

Bob Lonergan:

Got it. Helpful. Kunal, we've talked a fair amount today about the Sharing economy, but let's just start off. Can you give us another example of the type of clients or partners we are working with?

Kunal Malhotra:

If I take a step back, I mean, we've been observing a lot of macro trends, consumer trends. Alan spoke about them, we relentlessly pursue them. One of the most exciting trends to come out in recent times has been the rise of the sharing economy. As we have looked at that economy, as we have looked at what those backroad trends are, we found a few key things that essentially drive the growth of this business. One of them is that consumers are increasingly looking towards access as opposed to ownership. When I get in the call I don't necessarily have to buy it or finance it if I can get it by the day, by the hour, by the minute, however that works for me. The other piece is the rise of these companies that allow individuals to perform gigs, jobs, gigs, either to support their more traditional employment or replace it.

The rise of these two trends opens up a lot of opportunities, how people access the cars and how people use their cars, which opens up a lot of opportunity.

Bob Lonergan:

Yes. Something that's always confusing for me a little bit—I'm sure it is for others—what are our products doing; what are they solving for?

Kunal Malhotra:

If you think about what the sharing economy is—quick show of hands, how many of you have ever ridden in an Uber or a Lyft or possibly stayed in an Airbnb? Well, I have. You're participating in the sharing economy. Thank you so much. The nature of the sharing economy opens up a lot of unique circumstances. You're using an asset that possibly yours that you're renting out to someone else or if you're an Uber driver using your personal vehicle because you want to make some money on the side for kid's tuition or a dream vacation to Hawaii; or you buy an investment property and you rent it out in Airbnb so that you can make those payments so the home is ready for you when you retire, these are some use cases that the sharing economy throws up.

The challenge with traditional insurance products is that they're built around a very traditional concept of ownership and a very well-defined usage. I think these lines get blurred in the sharing economy and that's why traditional insurance products do not really meet the needs of the sharing economy.

Bob Lonergan:

Got it. These kind of new segments or markets are disrupting the traditional markets and those have new traditional insurance players that play in these spaces. Why has Assurant been able to kind of capture this opportunity and why are we such a leader in this space?

Kunal Malhotra:

This is a new business that we have built, but it's played out of the same playbook that others have used at Assurant. Manny talked about the Mobile business or the Auto business and how we're disrupting that. We view some of those capabilities, some of those learnings and built a new business. We've been creative, we've been innovative, we've tried to find out what the different stakeholders in a sharing economy are. If you're an Uber driver, you're driving your personal vehicle, you get into an accident, your personal line insurance company will most likely decline the claim because you were using that car for a commercial transaction. Same as if you rent out your home through Airbnb; someone comes in and burns your house down accidentally with a party and bad things happen, your homeowner's company might deny that claim because they would consider it a commercial use.

We've taken a look at these transactions, a different lens of it, built from the ground up, unique transaction-based episodic products that protect the Uber driver in the case of an accident while they're driving for Uber; the homeowner and the renter when they're involved in an Airbnb transaction. It's just across the board having just a new perspective on how all these (phon) insurance could work.

Bob Lonergan:

Clearly, you're excited, I'm excited. What kind of metrics can you share with us that kind of shows excitement and how fast this business is growing?

Kunal Malhotra:

To put this in perspective, this industry is about 10 years old and we've been in it for the past few years, so we're still developing these trends. But a few numbers that you had used in your slides are pretty interesting. Inception-to-date, Assurant has insured over 800 million shared miles across the different businesses that we have. We have insured 140 million on-demand deliveries, whether it's food or groceries delivered to your home, and a lot of that growth has come more recently. So we expect that these numbers could continue to grow significantly and I'm personally very excited about what this means for the business.

Bob Lonergan:

Any thoughts on how big this could be on particular areas?

Kunal Malhotra:

We believe the Vehicle Subscription business that Paul alluded to, we believe that that's a very fast growing business. We see a lot started off as startups and new companies wanting to participate in this space and now we're seeing the large OEMs, the largest dealer groups in the country, wanting to be in it. So, while I can't size this directly, but I can tell you that we're seeing—it's a sign of maturity when you see the mainstream players starting to enter this space.

Bob Lonergan:

Got it. Thank you. That was great. Another market that we see a lot of potential and that we're excited about is the Connected Home. Manny, could you just kind of elaborate on why we're so excited and where we see the potential?

Manny Becerra:

Sure. Well, I think you see it all over the news, the speed of growth of this particular marketplace. Keith talked a little bit about this before that the market is about $90 billion in assets and services around the smart home being sold today, and that's expected to grow to about $150 billion or so in the next five years. It's a nice growing space and, much like what I was talking about before, in Auto and what we experienced with Mobile, there's complexity, some confusion among consumers, and that creates opportunities for us. We do some direct research with consumers and, if you look at the buyer intent, it's higher than actual buying habits. We started looking at what are some of the things that are creating friction for customer adoption, and part of that is just not knowing exactly what they can do with the devices that they're buying. They want to be smart about the investments they make in their home. They see opportunities for convenience, but they don't know what to do next and that creates opportunities for us to leverage the Pocket Geek suite that we talked about and premium tech support.

I was recently talking to one of our auditors who was asking me about our business and what we're doing, talking about home space, and I mentioned that I got a Peloton this past Christmas. I don't know—anybody own a Peloton? It's a great product. I don't know, I think it is. I've lost some weight doing it. But I'm talking to the guy about it and I told him, really, it's a family product. "I like the cycling part of it, but my daughter likes yoga." He looked a little puzzled. "Well, how does your daughter do yoga looking at the Peloton? I see in the class but it's kind of awkward to watch." I go, "You can project it to your TV." Well, it was an epiphany for him. He had no idea. He didn't know how to do it.

Simple problems like that, even with me—I said let me go through an experience to see if they can help me connect to my Samsung TV and, of course, they couldn't because they don't understand the workings of the TV. This is where we have an opportunity to bring pieces together.

Also, with 5G, the proliferation of more devices, the average number of devices in the home are going to continue to increase and the true functionality of those devices come when you can interconnect them, understand how they relate to each other, and when you have a problem, help solve it. So, we're excited about that space.

Bob Lonergan:

Makes a lot of sense. I want to kind of step back for one second, talking around the Connected Car, talking around digital auto, the sharing economy. Paul, you manage some of our most important flagship client relationships, and so one of the things that has us so excited is that when we can walk into our clients now we have this whole breadth of solutions that we've pulled together. I'd love for you to just kind of spend a couple of minutes and just talk through how you feel like this kind of whole vision and portfolio of solutions we have helps differentiate us in the marketplace.

Paul Sims:

Sure. If you think about the automotive space, all the players are facing a lot of change in the industry and they're all trying to figure out how to react to that change. If you think of the largest players—Carmax, Automation, etc.—these players are our customers and so we have a lot of dialogue with them. They are all looking at corporate venture investing; they're all looking at enterprise-wide initiatives; they're all looking at pilots—the same things that we are doing in our business, and that gives us an opportunity to have a very different dialogue than if we were sort of sitting back and resting on our laurels and saying, "Hey, we're a leader in this space. We're going to focus on just F&I products." We're able to help them have very different dialogues, think about how they make those investment decisions, think about how they react to the changes in the market, and really help them on the innovation front, which is different than what other players in the industry do. It really changes the dialogue there.

The other thing that they really appreciate besides their innovation and our focus on that is our service. These are the best brands and they are very focused on customer experience and net promoter scores. They like the fact that we have not just an almost 60-year track history of serving consumers, but are very, very focused, as Francesca mentioned earlier, very focused on saying what can we do to take that customer journey, that customer experience, to the next level? How can we make the experience of filing a claim that much easier for a consumer?

Bob Lonergan:

That's great. I want to tell a story real quick that I just love. Paul is an example of some of the top talent that we were fortunate to have come over from The Warranty Group when we did the acquisition. When we first met Paul, we were just kind of catching up and Paul described how he was going after pitching one of these kind of early-stage companies that we were excited about prior to the deal. The company was, like, "That's great, what you all kind of want to do. But what you need to do is talk to Kunal or talk to Assurant because Kunal and that team, they're already doing it and they're great and that's who we're partnered with." It was just a great example of how excited we are when we have Kunal who's already on the team and then you have all the great things with The Warranty Group led by Paul who's doing and how we really felt like it just let us to have this fantastic platform to go from there.

Paul, you referenced something in the last part of your answer on the consumer experience and I want to end with that because the consumer experience really is arguably the most important thing that we need a focus on here at Assurant. Francesca, you lead those efforts for us, so I'd love for you to maybe just to kind of give us a brief history of what we've been doing around consumer experience and what are some of the areas that we are really excited about.

Francesca Luthi:

Yes, sure. As Bob says, he's got a great job, certainly leading our strategy innovation. I think certainly I'm a close second in terms of all the work we've been doing around operational transformation and, in particular, to benefit the customer experience. Hopefully you've gotten a feel for it today that operational transformation has been a core capability of Assurant for decades. If you think about how our products and services have evolved, I mean, it's now all about that connected lifestyle, that connected consumer, so delivering, again, a superior experience is really, really important.

We've done that by, first, really, again, leveraging those insights and understanding our clients' consumers better than they do. We do partner with our clients who are the leading brands of the world, and they hold us accountable to deliver a market-leading experience every single day and that bar continues to rise and certainly we hold ourselves accountable to exceed that.

The third element is we are constantly looking at technology and emerging technologies to optimize that experience day in and day out. You've seen some example—and Keith and Mike and Kathy all talked about this—about some of the investments that we've made certainly over the last couple of years in terms of creating a digital experience. We always look to make it as easy as possible across all channels for, again, customers to engage with us, whether it's at the point-of-sale or, again, through the claims process.

Most recently, you've also heard, I mean, we've done a lot relevant to artificial intelligence and machine learning because we see great opportunity there, both from an efficiency standpoint, no question, but also, we have some really tangible hard data that shows that it also yields substantial benefits relevant to any CX metric that you would look at.

So, maybe just to use it or give a few examples, relevant to machine learning, we have been looking at increasing the rate of straight-through processing, which is our in-sync claim adjudication process. There, again, because of all the data that we have, whether it's internal, so all of our historical claims outcomes—background checks, text mining, image analysis—we're able to adjudicate claims instantaneously so that enables them to increase significantly the times of paid claims, and we've seen on average wherever we deploy this, that we've had up to 14% increase in our NPS scores. It's, again, a material impact to NPS, 31% reduction cycle time, and then also 60% increase in adjustor efficiency. So, again, big impact on overall cost, but also big impact and positive impact on customer satisfaction.

Even with regards to the fraud example that you gave earlier, that too, of course, is important in terms of managing our overall cost and claims, but it's a tangible benefit to our clients that rely on us for our risk management skills, and, also, regulators and consumers are also very concerned to keep the rates low and make sure that fraud is detected as quickly as possible, and mitigated.

Those have been just some of the great examples of late that we've been really focused on, again, to drive better efficiency and a much better experience over time.

Bob Lonergan:

I love the tangible example, and just to end this, is there any other examples you'd like to give that we are really excited about?

Francesca Luthi:

Yes. I will urge you again during the lunch break to please go in the back and talk to Chad Ammons and Craig Thole because you'll get some live examples of that. There's actually a video about our auto virtual inspection capability. When we acquired The Warranty Group, as I mentioned before, we've certainly expanded our Auto business. We now do about 70,000 inspections a year across all of our channels and each of those inspections can cost up to $130 per inspection. That's the third-party inspector cost, as well as extended car rentals. So, it's a big number and also it drives a friction point sometimes because, of course, if you have a broken car, you want it to be fixed quickly and you want to be rolling out of that repair shop as quickly as possible. Now, what virtual inspection allows is that once a claim is open, the repair shop and the technician can upload photos or any other required information quickly and directly to the adjuster who can look at it, they can communicate both ways, but, again, it materially reduces the time to evaluate and assess that claim and, hopefully, you'll be out of the lot much faster and back to your daily life. So, that's another example. Please go and see the videos and test out some of the demos.

Bob Lonergan:

Love it. Well, thank you. That brings us to the end of our panel. First, thank you to our panelists. Great job. But if I could leave you with one final thought, we tried to be very thoughtful today around who we had up here discussing innovation, and what we really focused on was around automotive and that's why the Connected Car, digital auto, our customer experience and operations are driving improvements in the auto experience, as well as the sharing economies among the examples. Because of The Warranty Group acquisition last year, that was a transformative material deal and what we wanted to show is how now we're using this playbook to differentiate ourselves in the connected auto space. But rest assured we're doing this across all our lines of business—the Connected Device, the Connected Home, Multifamily, Preneeds, LPI—and this is kind of how our thinking goes.

Going back to Auto, we're not saying that all of these creative innovation solutions are going to take off and win, but I am highly optimistic that some of them will, and that's going to continue to different us in the marketplace and allow us to grow, and that's why we're so excited.

Thank you again and with that, let me invite up Suzanne.

Suzanne Shepherd:

Great. I think now you've got a good taste and flavor of what we're doing at the business. I think this is probably a good time to take a quick break for lunch, fuel up. We'll start back up, call it, in the next 15 minutes or so, so just right after 1 o'clock, so we can spend some time with Q&A panel with all the speakers. Please we'll break now and come back in around 15 minutes. Thanks.

(lunch break)

Alan Colberg:

All right. We're going to go ahead and get started with the Q&A. Obviously, feel free to keep eating your lunch. Invited up here with me are my fellow members through the MComm who presented here today. They'll help answer questions as we get to it.

I do want to clarify one thing from the earlier Q&A because I've been asked about it probably five times just walking around, which is the one chart that Richard had that showed the use of capital, roughly 50% going to repurchase, 25% going to common stock dividends, and 25% for M&A organic. First of all, that's illustrative.

The way you should think about that, though, the piece that's for M&A and organic, that includes the assumption we do Ike, which is what we said in the last earnings call, so that's part of that number already. It also includes the ongoing investments in Assurant Growth Investing, so a lot of that is the things we've been doing that we think are creating incremental value. But with that said, the way we've always thought about uses of capital is there's a very high hurdle on M&A. You've seen our track record. If we end up not finding things that are value-creating for shareholders, we'll give the capital back; that's always been our pattern, so think about it that way. But I just wanted to clarify what that is and that actually a lot of that is already spoken for with what we're doing with Ike and the ongoing investments in AGI.

With that, I will turn it over for Q&A. Again, we have microphones somewhere; over here we have one. If you can, again, state your name and affiliation when you start. Let's start maybe at the second table?

Male Speaker:

Thank you for that clarification. Can you also talk about if the earnings power of Ike is incorporated in your guidance numbers?

Alan Colberg:

Yes. As we looked at the outlook, we've assumed what would happen when we own it. Now, it's not prematurely significant because in the first few years you have intangible amortization. So, in terms of the NOI impact, it's not very material. In terms of cash flow, it's different, obviously. As Richard gave you, you can guess to a better view of cash flow by taking our earnings, adding back the intangible amortization for M&A, but it is reflected in there.

Next question, come over here.

Gary Ransom:

Gary Ramson from Dowling. I wanted to tie together the acceleration going from '20 to '21 on the earnings with what you were emphasizing about the unearned premium reserve for the Auto business. Is some of that acceleration built in or baked in, in a sense, because of what's on the unearned balance sheet right now?

Bob Lonergan:

Yes. It's a great question. I think that is one of the reasons. One of the slides that Keith talked about was the difference between the written premium and the earned premium and how that gap is coming through. Our sales have been increasing and the premiums are increasing and they will earn out, so that is one of the factors in Global Auto that'll help us grow earnings. Obviously Multifamily Housing is going to be increasing over time; Connected Living will be increasing. So it's one of a number of elements that will help us accelerate the growth.

Gary Ransom:

So that's not necessarily a driving force behind it, it's one of several?

Bob Lonergan:

It's one of several, but it's a nice element.

Alan Colberg:

Keith, maybe one of the things that we've done more recently, like with the Japan program where we're going to be on risk in year three and year four, we have things that are being sold today that we're not seeing any income from until you get—do you want to talk a little bit about that because that's another source of acceleration.

Keith Demmings:

Yes. I think there are a few factors. I think there're also investments that we're making in the business to drive the future, which hopefully will pay off longer-term. That's happening. We've got many clients that we've launched. There's a lot of expense to get these clients up and running. They don't—anywhere near a skill of maturity for three, four, or five years if they're in the mobile space, so that's a significant factor. As we close new auto deals, those don't start earning at all initially. So there're a lot of factors around the mix of the business, and as the business matures we have pretty good line of sight to how we think about those out years and why we feel comfortable that we will get outperformance in '21 and beyond.

Alan Colberg:

So, it looks like all the questions are over here. Why don't we go to the middle for a minute because we haven't gone to the middle part of the table? Right over there. I promise I'll come back to that side.

Alan Danzig:

Alan Danzig, Lord Abbett; Richard, you have mentioned some nontraditional investments in the portfolio, including real estate. Can you talk about what opportunities you're seeing there and also specifically relating to your CLO platform, any updates you could give both issuance and what you've been holding on the balance sheet?

Richard Dziadzio:

Yes. Great. I think, as I said in terms of our investment portfolio, the vast majority of it is in high-quality fixed income. What we do have, and it's an in-house team that also invests in alternative investments that provides us some good returns; real estate is just one part of it and that's real estate, whether it's direct ownership or debt commercial mortgages. We also have a CLO platform that you mentioned that we started a little over a year ago that actually invests—we've taken our experience where we invest in CLOs and actually now we create them for third parties. We're on I think our fifth, yes, we're on our fifth CLO out in the market and that provides us both with investment returns and in a certain level of fee income.

So, it's a nice addition to our overall investment portfolio.

Alan Colberg:

Why don't we go all the way to the back?

Scott Scher:

Thank you. Scott Scher with LMJ Capital; you started off the day by talking about why you think ROE is a less relevant measure for the business today and I appreciate that. You've emphasized all the businesses which have service quality today. Could you talk about today what percent of your earning's stream you think is capital intensive/deserves to be things that are thought about on an ROE basis and what part deserves to be thought of as a service business? Then project that out three years from now and, say, we think three years from now this percent will be service like and this percent will be capital like. Please. Thank you.

Alan Colberg:

Yes. I'm going to simplify it and then complicate in my answer, so I apologize. The simple way to look at it is to think Housing and Preneed are risk businesses and today roughly half of our earnings, ex- cat, are from those two. Then Lifestyle is really fee income. Now, as we talked about, our insurance product is in there, but they're very low capital intensity insurance products, so they don't really behave like insurance. We talked to Keith about the way we share the risk back on most of our programs in Auto and Mobile. That's a simple way to think about it.

If you look at the trends, Lifestyle is going to grow rapidly. We are assuming no weakness in the housing market, so Housing is growing slower. Preneed is a slower grower. The mix is going to continue to shift toward fee just because of that dynamic. The complication I want to throw in, though, is if you look at our Multifamily business and our Specialty, that big piece of it—not what Kunal was talking about but the global Specialty Multifamily part—although there's an insurance product in there, it's not really cat exposed and so what we're really covering is the contents and the contents are going to be things like the same things that are in the service contracts. So, it's pretty low capital intensive. If you think about that, that kind of goes kind of in the middle, so I would argue today roughly 50-50 on a simple view, growing more toward the fee income, but we try to simplify and just think of Lifestyle as the fee engine business and think of Housing and Preneed as better-than-market risk businesses that can generate above market returns.

Mark Hughes:

Mark Hughes with SunTrust; Mike, you had mentioned that severely delinquent homeowners are 20% of the lender place mix. Can you give us a sense kind of what that other 80% is comprised of? How has your voluntary business performed, has that been growing, do you anticipate it to continue to grow?

Mike Campbell:

Sure. Thank you. Appreciate the question and thanks, Mark. When we look at the business, it probably is north of 80% where we have business that is non-seriously delinquent. I think about, like Alan said, there's a need for our products where maybe somebody can't get coverage because of underwriting conditions, where they're located, etc., so that's how it's balanced out. During the mortgage crisis there was a need for a lot more coverage on vacant properties and homes that were in that higher delinquency phase, so we feel like we've hit somewhat of a normal balance here. In the performance of the overall Homeowners book and it's kind of tied in within Lender-placed fees, we have a much smaller component of true voluntary coverage, but it is performing well. We partner with lenders to continue to look for alternative products for their borrowers, but I think it's performing generally in line with our other risk businesses.

Mark Hughes:

Keith, I think you'd said in the Automotive 15% of revenue was from underwriting profits. As a percentage of pretax, how much of that is underwriting?

Keith Demmings:

Yes. What I tried to do is talk about operating revenues. If you sort of strip out all the claims that get paid and the commissions that get paid, the money that's left over for Assurant to pay our expenses, less than 15% is from actual underwriting performance is how I was thinking about that. So that falls to pre-tax as well depending on how you allocate the overhead of the Company. But, yes, I would think of it in the same way.

Alan Colberg:

Let's go over here.

Chris Campbell:

Hi. Chris Campbell, KBW; just kind of a question, Alan, you had had a slide earlier just discussing Assurant's average for PE discount. If I'm looking at that, that's kind of common for a company to have multiline insurance operations. Just how strategic is Preneed for Assurant and do you think having less life exposure would be multiple enhancing?

Alan Colberg:

I don't know how the market would think about that. I mean, I think the way we think about it is we focused the Company down around major consumer purchases in partnership with the world's leading companies, and, increasingly—we didn't spend a lot of time on Preneed today, but Preneed has a similar roadmap of evolving to do much more than provide the insurance product around ultimately senior lifestyle. We look at it as it fits well, it's strategic; yes, its primary product today is life, but we've rolled out and we've talked about it in the earnings call, now our Executor product, really a fee income stream that maybe will be successful, maybe not, but we will find the next of those. So, we think about it that way and that it really fits well with what we're trying to do as a company.

Let's go over to right there.

Michael Phillips:

Thank you. Mike Phillips from Morgan Stanley; Mike, you mentioned this in your earlier comments, the LPI business and the volatility and how the reinsurance has helped with that. But I guess could you just give a little more details on other things you're thinking about doing there besides the reinsurance that could help the volatility?

Mike Campbell:

Well, I certainly can answer and let Richard jump in here as well. Richard and I, with a group of team members, continually assess this, Bob included and a number of us from the Management Committee. We really view what we've done in buying down the retention as really meaningful progress, as Alan shared with you. So, we have long-term reinsurance partners that we've extended long-term contracts. It could be quota shares or it could be other avenues for us to think about the risk; something that we talk about as a Leadership Team often and we will continue to assess the right opportunities.

I don't know, Richard, anything to add?

Richard Dziadzio:

I think that covers it really well. Just a couple of things I would add, I think, first, in Alan's presentation, if we look at lender place in the scheme of overall Assurant and the cat risk overall to Assurant, it's become much, much less. That's one factor I would take into account. I think by the nature what we do in lender place, there is cat risk and that comes with the business. I think you said it in your question: placing cat risk and understanding how much we place and other variations of reinsurances is the main component of doing that, and then rate. I mean, where we do get hit and where we do merit rate, we are getting rate increases, which really allows us to say we're going to have that combined operating ratio within the 86% to 90%. Obviously a little volatility around that, but with the 17% to 20% ROE that we're projecting, it'll be a pretty nice return over time.

Mike Campbell:

Maybe one thing I would just add, it's a balancing of an equation which is earnings volatility and the exposure with the cost of the program. If you go back to Slide 22, one of the things that you will see is that just in terms of expected NOI as a percentage of NOI without cat is actually increased over time. We spent a lot of time today talking about how our exposure to cat and how earning volatilities decreased, but we are also equally proud of the fact that it hasn't cost us relative to what expected NOI is as a percentage; it's actually higher around 89%. When we go forward, we're going to continue to look for ways to further decrease earning volatility but also do it in a very economically efficient manner.

John Nadel:

Yes. Thanks. John Nadel from UBS. I'm thinking about the uneven piece around the 10%-plus Lifestyle earnings. I definitely get why 2019 should be a faster pace of growth relative to '18, just given you've got the full year of TWG and the incremental synergies. I guess I'm struggling with why 2020 would slow down and then '21 would accelerate again. Is it really simply just a function of the pace of investment spending or is there something else going on in the biz?

Alan Colberg:

Yes. Keith, you want to take that?

Keith Demmings:

I mean, think it's probably a combination of things, as I said before. Certainly, there're investments that we're making in the business and we think that those investments pay off long term. I think it's the mix of business that we see and how things are flowing through as we sort of model out the results and look at all the clients that are performing. For a lot of our business, we can sort of see what the future looks like as we project the next couple of years and I think it's just a result of this is what we think is going to be projected through the financials.

There's not a single item that necessarily is driving that, but I do think the investments we're making will definitely set us up for that long-term growth. The one thing I would highlight is we talk about delivering more than 10% as we look forward. We're starting from a spot where we are literally twice as big as we were. We're $298 million as a starting point versus $153 million, so we're starting off a much more significant base as we look to those outlooks for the future.

John Nadel:

Listen, I hear you. It's a much bigger organization, but both organizations separately were growing at 10%, so I don't really understand why the organization on a combined basis wouldn't continue to grow at that pace.

Richard Dziadzio:

I think there's one thing I'd like to add. I think in addition to that, well, within TWG we have the TWG synergies and obviously we've been raising hard and we've talked about that on the earnings calls. Part of the earnings coming through as we have TWG for the whole year is that increase in synergies this year, the $60 million. We're not going to get another $60 million in addition to that next year either, so when we (cross-talking).

John Nadel:

No. But 10% would just be (cross-talking).

Richard Dziadzio:

I know. When we grow the earnings we're going to get, I would call it extra growth this year with TWG for the full year and the big synergies coming in, and then after that you get the other elements that Keith described as well.

John Nadel:

Okay. Then if I could just follow up on I think it's slide—Keith, it was a slide from yours that talked about the unearned premium. I guess I'm trying to square the very significant dollar amount of unearned premium with the 15% comment about underwriting contribution to earnings. I'm not sure which one I should be thinking about here. That unearned premium reserve looks massive and it looks like there's a huge embedded earnings stream, but then on the other hand, it sounds like maybe a very large portion of that actually goes to the benefit of your partners and not to Assurant.

Keith Demmings:

Yes. I think that's a very fair point. The way that I tried to frame it is—and this is why I did it that way—is we think about it like there's four years of embedded value or embedded profit. That's the way I would think about it, moreso than thinking about the fee income portion. When I say that it operates like fee income, I'm thinking about a lot of our deal structures where we're really not ultimately on the risk or we're not making underwriting profits. It could be a lot of businesses reinsured; it could also be a lot of the other businesses have profit sharing structures where we may give 100% or some large portion of profits back to significant clients. We build those contracts with a lot of buffer. We have very good pricing adjustment mechanisms and those flow back to the client. So, really, what we're getting is a stated fee, either per contract or as a percentage of premium for providing underwriting services, issuing contractual liability policies, etc. We get fees for administering; we get fees for training, but those fees don't change based on how the performance of the business goes in many of the cases.

I think what you're trying to do makes it really tricky. I tried to simplify it to say if you looked at our UPR and you said it's $7.8 billion, think about it like it's four times 2018 earnings. Then when I said it's 63% operates like fee income, it still is premium, it just doesn't really operate like premium because we don't either retain the risk or we don't get the underwriting profits ultimately on the performance of the risk. So I was just trying to create a different point of view that's more in line with how we think about it. That doesn't necessarily line up to how the revenue would flow from the 7.8 all the way through the revenue line into the financials, if that make sense.

But I don't know, Richard, if you'd add anything else.

Richard Dziadzio:

Yes. I think you just touched on it. I mean, there's the accounting convention behind it where you're looking at our accounts, I would insurance accounting where we're getting in the premium is really what the customer is paying. They're coming into our premiums on a gross basis, and then you're going to be docking it—try to get insurance lingo—but you're going to be docking that and then you you're your distribution costs coming out and you have your claim costs coming out. I mean, that's what really Keith is talking about when he's saying, hey, I've got these four years of premiums coming in. They're coming in gross and then they're coming through in the various lines that we'd expect them to come through in.

Keith Demmings:

It sort of makes sense if you think about a new car warranty being six years for your delaying. You're delaying any earnings virtually until the fourth year and that's half of our business. The other half is new car. Our used car business, which is 3.5 years, that starts to earn right away. You can kind of understand why there's this buildup of embedded value and then you think about the fact that the business has been growing, to your point earlier, by 10% a year for many, many years, which is obviously also kicking out some of the earnings for the future.

John Nadel:

Do you guys get the investment income on the gross premiums?

Keith Demmings:

It depends on the deal, it depends on the structure. We probably make 25% of our, I call it the gross revenue we have available, back to that analogy. Probably a quarter of our revenue is from investment income, roughly in that range. I wouldn't take that too precisely, but it's sort of in that range.

John Nadel:

Thank you.

Alan Colberg:

Other questions? In the front? Thank you.

Male Speaker:

Richard, to be clear, your unearned premium overall is $15 billion, roughly twice as big as the $7.8 billion you break out here, and that other half is—that's what you split with…

Richard Dziadzio:

Yes. It'll be in the other parts of the business.

Male Speaker:

Right. So there the economics are not reflected here. They're already...

Richard Dziadzio:

That's right. Keith's just talking about the $7.8 billion in the Auto. I mean, obviously Lender-placed will have, wherever there's premiums coming through, they'll…

Male Speaker:

Is the credit business dropping off faster than it had previously? You seemed keen to break out the Connected Living and the Auto. Is that to say that credit is dropping faster in that part the biz?

Richard Dziadzio:

I would say that's not the reason that we're breaking it out. I think we're breaking it out to give more disclosure. We've kind of anchored to net operating income as the driving force for Lifestyle. Given the Auto business is so significant and there's a craving for more information from investors, we wanted to breakout Auto. Then as a byproduct we break out financial services. So, that's not a driver, but at the same time I would say financial services will probably see a relatively material decline in 2019 and then a more modest decline in 2020, and then we will be in either normalization or, hopefully, if things go our way, we'll be starting to grow that business again.

Alan Colberg:

Back there a question? Any other questions? Let's go to the middle. This is probably the last question and then I'll close. Obviously, you can always follow up with our IR team on any questions that didn't get answered today.

Jacob Feinstein:

A lot of pressure, last question. Jacob Feinstein from Samlyn Capital. In the beginning you started off by saying you think that the stock is undervalued relative to how you view the intrinsic value of the business. What either pieces of the company as a whole or elements of the financial algorithm of the business do you think that the market is not appropriately realizing the value of?

Alan Colberg:

That calls for me to speculate because I can't speak for the market, but when we look at it, we don't feel like the Company is understood well in part because of the lack of peer groups for a lot of the businesses.

We've tried to be clear today, if you look at Preneed, it's a better-than-market life company with a growth opportunity beyond life. That ought to be worth more than a typical life multiple. If you look at housing, it's a better-than-market risk business because of the way we do things, and we do them very differently—there are lots of comparables there that ought to trade better than that.

Then the piece that's been hardest for investors to really understand is Lifestyle, other than the fact it's been growing, but to really have transparency, the breakout of NOI gives you lot more transparency into the pieces of Lifestyle. So we think Lifestyle with that, over time, to really understand better why it's growing and that that growth is sustainable, it's probably not valued correctly either. So, our view is we're trying to give enough clarity about the different pieces that the market hopefully will understand that probably all the pieces are not being thought of correctly from the real value they create for our shareholders.

Bob Lonergan:

If I could just add to that, part of the story was if you go back to the last Investor Day and compare us today versus where we were three years ago, first, the portfolio is completely different. It used to be heavily weighted to LPI and people thought the future of that was going to diminish. Now it's more weighted towards our growth businesses.

Secondly, you look at the earnings volatility and that's changed dramatically over time.

Third, when you look at what was driving the share buybacks previously, it was from divestitures of businesses we've had; today it's from the operating growth of the businesses.

Then the fourth thing, when you look at our EPS growth forecast, it's actually above the S&P 500 forecast, so that's where part of the message today is how we've transformed the business and hopefully it's convincing and appealing to investors to recognize we don't feel like the discount that we've historically traded at should necessarily apply going forward.

Alan Colberg:

Yes. All right. Well, I want to thank the investors for their questions for the panel, the MCOM for the good dialogue today. I just wanted to offer a few remarks in closing.

I hope you heard loud and clear today our pride in what's been accomplished over the last few years and our passion for the future, which is real, and you see the amount of innovation that we're bringing to the market, the momentum we have, the number of new client partners that have selected us. That's a great foundation. We tried to really demonstrate today the strength of our market positions, the brands, the partners we have, the innovation, the change in our economics.

If I think about the next few years, what do we expect, what do we believe will happen? First, we have great momentum in the core parts of our business. If you think about our portfolio of businesses with leadership positions and attractive growth, we don't need more businesses. We feel very good about the ones we are in. We just need to continue to build those positions, and the innovation is a key part of that. It's why we get more clients, it's like we're able to add more services, which I twill really improve the profitability over time.

If you think about partnerships with the world's leading brands, we and every vertical we are in, we have a significant portion of the major players as our partners already. We want to retain those and we want to add more. That's how we think about the next three years: continuing to add partners or, as Paul talked about in his portion of the panel, new emerging partners. We need to go where the consumers are going in all of our spaces.

The broadening beyond insurance, that's something we've been doing for years. As you saw, we're farthest along in the Connected Device; we're right behind with the Connected Auto; we're working on the pilot in Connected Home; and we're trying to lay out the Connected Preneed and how that could evolve over time. So, we're thinking about that for all of our businesses that it's more than just insurance, because of its just insurance, that's not as interesting, but if we're doing all of these things to create real value that embed in the model, that's great. So I think we'll do more of that.

Then at the end of the day, 5G will accelerate this eventually, but everything will be connected. For the consumer, it was mentioned a few times, that comes with some benefits and comes with lots of pain. We have a unique position in these Connected-everything to be the firm that companies turn to, to make sure consumers get value out of all of these things they're buying, that they leverage the technology that's out there. We already are one of the innovators in the connected world and we expect and believe we'll continue to be one of those innovators.

If you think about the journey we're on, we've changed the Company completely. As Bob mentioned, some of the economic characters here are completely different, but we feel like we're now doing what we need to do and it's continuing that in the spaces that we're in. It's not go find the next thing to do, it's go deeper and deliver in the areas that we're in.

If I go to the financials, again, just to reiterate what we said, three years from now hopefully we'll do the next Investor Day or two years or whenever Suzanne tells me it's time. We want to be able to come up and say we've delivered again; we've delivered over our transformation; we've delivered for our 15-year history; and we expect and we believe we can deliver over whatever time period we're talking about in the future. That 12% average annual growth in operating EPS, as Bob mentioned, that's better than the market and we certainly have upside to that if we get into a weaker housing market or if 5G comes into play sooner. There are things that we didn't model in that could create upside if the market changes that way.

Sustained double-digit growth in earnings, that is high quality, very different than, as Bob said, the buybacks three years ago.

Then finally, the return of capital to shareholders, we have a long history of doing that. We put out an objective that we're comfortable that we have the expectation we can deliver on and our commitment to you all remains that if we have more capital, we've been very disciplined about how we return that to shareholders and we don't see any of that changing.

In conclusion, I just want to thank the team, thank the IR team again. It's been a lot of work getting us ready. Thank you to our employees and thanks all of you for the interest in the Company. We look forward to the journey and staying in touch with all of you. Thank you.