

ASSURANT INC
Form 10-K
February 19, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-31978

Assurant, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction)

of Incorporation or Organization)

28 Liberty Street, 41st Floor

New York, New York
(Address of Principal Executive Offices)

39-1126612
(I.R.S. Employer

Identification No.)

10005
(Zip Code)

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Registrant's telephone number, including area code:

(212) 859-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No "

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes " No x

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Common Stock held by non-affiliates of the registrant was \$4,609 million at June 30, 2014 based on the closing sale price of \$65.55 per share for the common stock on such date as traded on the New York Stock Exchange.

The number of shares of the registrant's Common Stock outstanding at February 12, 2015 was 68,865,622.

Documents Incorporated by Reference

Certain information contained in the definitive proxy statement for the annual meeting of stockholders to be held on May 7, 2015 (2015 Proxy Statement) is incorporated by reference into Part III hereof.

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ASSURANT, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2014

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Amounts are presented in United States of America (U.S.) dollars and all amounts are in thousands, except for number of shares, per share amounts, registered holders, number of employees, beneficial owners, number of securities in an unrealized loss position and number of loans.

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FORWARD-LOOKING STATEMENTS

Some of the statements under Business, Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report, particularly those anticipating future financial performance, business prospects, growth and operating strategies and similar matters, are forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these statements by the fact that they may use words such as will, may, anticipates, expects, estimates, projects, intends, plans, believes, forecasts, potential, approximately, or the negative version of those words and other words and terms with a similar meaning. Any forward-looking statements contained in this report are based upon our historical performance and on current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Our actual results might differ materially from those projected in the forward-looking statements. The Company undertakes no obligation to update or review any forward-looking statement, whether as a result of new information, future events or other developments.

In addition to the factors described under Critical Factors Affecting Results, the following risk factors could cause our actual results to differ materially from those currently estimated by management:

- i. actions by governmental agencies or government sponsored entities or other circumstances, including pending regulatory matters affecting our lender-placed insurance business, that could result in reductions of the premium rates we charge or increases in expenses, including claims, commissions, fines, penalties or other expenses;
- ii. loss of significant client relationships or business, distribution sources and contracts;
- iii. the effects of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the Affordable Care Act), and the rules and regulations thereunder, on our health and employee benefits businesses;
- iv. potential variations between the final risk adjustment amount, as determined by the U.S. Department of Health and Human Services under the Affordable Care Act, and the Company's estimate;
- v. unfavorable outcomes in litigation and/or regulatory investigations that could negatively affect our business and reputation;
- vi. current or new laws and regulations that could increase our costs and decrease our revenues;
- vii. significant competitive pressures in our businesses;
- viii. failure to attract and retain sales representatives or key managers;
- ix. losses due to natural or man-made catastrophes;
- x. a decline in our credit or financial strength ratings (including the risk of ratings downgrades in the insurance industry);

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- xi. deterioration in the Company's market capitalization compared to its book value that could result in an impairment of goodwill;
- xii. risks related to our international operations, including fluctuations in exchange rates;
- xiii. data breaches compromising client information and privacy;
- xiv. general global economic, financial market and political conditions (including difficult conditions in financial, capital, credit and currency markets, the global economic slowdown, fluctuations in interest rates or a prolonged period of low interest rates, monetary policies, unemployment and inflationary pressure);
- xv. failure to find and integrate suitable acquisitions and new ventures;
- xvi. cyber security threats and cyber attacks;

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- xvii. failure to effectively maintain and modernize our information systems;
- xviii. failure to predict or manage benefits, claims and other costs;
- xix. uncertain tax positions and unexpected tax liabilities;
- xx. inadequacy of reserves established for future claims;
- xxi. risks related to outsourcing activities;
- xxii. unavailability, inadequacy and unaffordable pricing of reinsurance coverage;
- xxiii. diminished value of invested assets in our investment portfolio (due to, among other things, volatility in financial markets; the global economic slowdown; credit, currency and liquidity risk; other than temporary impairments and increases in interest rates);
- xxiv. insolvency of third parties to whom we have sold or may sell businesses through reinsurance or modified co-insurance;
- xxv. inability of reinsurers to meet their obligations;
- xxvi. credit risk of some of our agents in Assurant Specialty Property and Assurant Solutions;
- xxvii. inability of our subsidiaries to pay sufficient dividends;
- xxviii. failure to provide for succession of senior management and key executives; and
- xxix. cyclical nature of the insurance industry.

For a more detailed discussion of the risk factors that could affect our actual results, please refer to [Critical Factors Affecting Results](#) in Item 7 and [Risk Factors](#) in Item 1A of this Form 10-K.

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PART I

Unless the context otherwise requires, references to the terms Assurant, the Company, we, us and our refer to our consolidated operations.

Item 1. Business

Assurant, Inc. is a Delaware corporation formed in connection with the initial public offering (IPO) of its common stock, which began trading on the New York Stock Exchange on February 5, 2004. Prior to the IPO, Fortis, Inc., a Nevada corporation, formed Assurant and merged into it on February 4, 2004.

Assurant safeguards clients and consumers when the unexpected occurs. A provider of specialized insurance products and related services, Assurant operates in North America, Latin America, Europe and other select worldwide markets through four operating segments. Assurant Solutions, Assurant Specialty Property, Assurant Health and Assurant Employee Benefits partner with clients who are leaders in their industries to provide consumers peace of mind and financial security. Our diverse range of products and services include mobile device protection; debt protection administration; credit-related insurance; warranties and service contracts; pre-funded funeral insurance; lender-placed homeowners insurance; property appraisal, preservation and valuation services; renters insurance and related products; manufactured housing homeowners insurance; individual health and small employer group health insurance; group dental insurance; group disability insurance; and group life insurance.

Assurant's mission is to be the premier provider of specialized insurance products and related services in North America, Latin America, Europe and other select worldwide markets. To achieve this mission, we focus on the following areas:

Building and managing a portfolio of specialty insurance businesses Our four operating segments are focused on serving specific sectors of the insurance market. We continue to develop and add specialty market capabilities where we can meet unserved consumers' needs, achieve superior returns, and leverage enterprise resources. We believe that the diversity of our businesses helps us to maintain financial stability because our businesses will generally not be affected in the same way by the same economic and operating trends.

Leveraging a set of core capabilities for competitive advantage We pursue a strategy of building leading positions in specialized market segments for insurance products and related services by applying our core capabilities to create competitive advantages *managing risk; managing relationships with large distribution partners; and integrating complex administrative systems*. These core capabilities represent areas of expertise that are advantages within each of our businesses. We seek to generate attractive returns by building on specialized market knowledge, well-established distribution relationships and, in some businesses, economies of scale.

Identifying and adapting to evolving market needs Assurant's businesses strive to adapt to changing market conditions by tailoring product and service offerings to specific client and customer needs. By understanding consumer dynamics in our core markets, we seek to design innovative products and services that will enable us to sustain long-term profitable growth and market leading positions.

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Strategic capital deployment We deploy capital through a combination of investments in our businesses, share repurchases and dividends. Our approach to mergers, acquisitions and other growth opportunities reflects our prudent and disciplined approach to managing our capital. Our mergers, acquisitions and business development process targets new business that complements or supports our existing business model.

Competition

Assurant's businesses focus on niche products and related services within broader insurance markets. Although we face competition in each of our businesses, we believe that no single competitor competes against us in all of our business lines. The business lines in which we operate are generally characterized by a limited

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number of competitors. Competition in each business is based on a number of factors, including quality of service, product features, price, scope of distribution, financial strength ratings and name recognition. The relative importance of these factors varies by product and market. We compete for customers and distributors with insurance companies and other financial services companies in our businesses.

Competitors of Assurant Solutions and Assurant Specialty Property include insurance companies and financial institutions. Assurant Health's main competitors are other health insurance companies, Health Maintenance Organizations (HMOs) and the Blue Cross/Blue Shield plans in states where we sell business. Assurant Employee Benefits' competitors include other benefit and life insurance companies, dental managed care entities and not-for-profit dental plans.

Segments

For additional information on our segments, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations and Note 22 to the Consolidated Financial Statements included elsewhere in this report.

Assurant Solutions

	For the Years Ended	
	December 31, 2014	December 31, 2013
Net earned premiums for selected product groupings:		
Extended service contracts and warranties - domestic (1)	\$ 1,631,339	\$ 1,372,314
Extended service contracts and warranties - international (1)	850,454	685,039
Preneed life insurance	61,093	66,523
Credit insurance - domestic	160,794	166,417
Credit insurance - international	318,104	380,683
Other	107,084	112,782
Total	\$ 3,128,868	\$ 2,783,758
Fees and other income	\$ 667,852	\$ 400,370
Segment net income	\$ 218,948	\$ 125,152
Combined ratio (2):		
Domestic	93.3%	97.9%
International	101.5%	102.8%
Equity (3)	\$ 1,605,669	\$ 1,447,306

- (1) Extended service contracts include warranty contracts for products such as mobile devices, personal computers, consumer electronics, appliances, automobiles and recreational vehicles.
- (2) The combined ratio is equal to total benefits, losses and expenses divided by net earned premiums and fees and other income excluding the preneed business.
- (3) Equity excludes accumulated other comprehensive income.

Products and Services

Assurant Solutions targets profitable growth in three key product areas: domestic and international extended service contracts (ESCs) and warranties, including mobile device protection; preneed life insurance; and international credit insurance.

ESC and Warranties: Through partnerships with leading retailers, mobile carriers, original equipment manufacturers (OEMs) and direct to consumer distribution, we underwrite and provide administrative services for ESCs and warranties. These contracts provide consumers with coverage on mobile devices, personal

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computers, consumer electronics, appliances, automobiles and recreational vehicles, protecting them from certain covered losses. We pay the cost of repairing or replacing customers' property in the event of mechanical breakdown, accidental damage, and casualty losses such as theft, fire, and water damage. Our strategy is to provide service to our clients that addresses all aspects of the ESC or warranty, including program design and marketing strategy. We also provide administration, claims handling, logistics, and customer service. We believe that we maintain a differentiated position in this marketplace as a provider of both the required administrative infrastructure and insurance underwriting capabilities.

Preneed Life Insurance: Preneed life insurance allows individuals to prepay for a funeral in a single payment or in multiple payments over a fixed number of years. The insurance policy proceeds are used to address funeral costs at death. These products are only sold in the U.S. and Canada and are generally structured as whole life insurance policies in the U.S. and annuity products in Canada.

Credit Insurance: Our credit insurance products offer protection from life events and uncertainties that arise in purchasing and borrowing transactions. Credit insurance programs generally offer consumers the option to protect a credit card or installment loan balance or payments in the event of death, involuntary unemployment or disability, and are generally available to all consumers without the underwriting restrictions that apply to term life insurance.

Regulatory changes have reduced the demand for credit insurance sold through banks in the U.S. Consequently, we continue to experience a reduction in credit insurance domestic gross written premiums, a trend we expect to continue.

Marketing and Distribution

Assurant Solutions focuses on establishing strong, long-term relationships with leading distributors of its products and services. We partner with some of the largest consumer electronics and appliance retailers and OEMs to market our ESC and warranty products. In our mobile business, we partner with leading mobile service providers, retailers and banks and market our mobile protection insurance and related services through them. In our preneed life insurance business, we have an exclusive relationship with Services Corporation International (SCI), the largest funeral provider in North America.

Several of our distribution agreements are exclusive. Typically these agreements have terms of one to 10 years and allow us to integrate our administrative systems with those of our clients.

In addition to the domestic market, we operate in Canada, the United Kingdom (U.K.), Ireland, Argentina, Brazil, Puerto Rico, Chile, Germany, Spain, Italy, France, Mexico, China, Colombia, Peru, Ecuador and South Korea. In these markets, we primarily sell consumer service contracts, including mobile device protection, and credit insurance products through agreements with financial institutions, retailers and mobile service providers. Systems, training, computer hardware and our overall market development approach are customized to fit the particular needs of each targeted international market.

In October 2014, we acquired CWI Group (CWI), a market-leading mobile administrator in France. We believe this acquisition will strengthen Assurant Solutions' market-leading capabilities in mobile device protection and expand its distribution into independent retailers and the financial services affinity market in Europe.

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In 2013, we acquired Lifestyle Services Group (LSG), a mobile phone insurance provider based in the U.K. This acquisition has allowed us to develop and expand our European mobile business platform. In addition, we made an investment in Iké Asistencia (Iké), a services assistance business with significant business in Mexico and other countries in Latin America. Iké primarily provides roadside assistance, home assistance, travel, mobile and other protection products. We expect this investment to allow us to expand our customer base and strengthen our presence in Latin America.

Table of Contents*Underwriting and Risk Management*

We write a significant portion of our contracts on a retrospective commission basis. This allows us to adjust commissions based on claims experience. Under these commission arrangements, the compensation of our clients is based upon the actual losses incurred compared to premiums earned after a specified net allowance to us. We believe that these arrangements better align our clients' interests with ours and help us to better manage risk exposure.

Profits from our preneed life insurance programs are generally earned from interest rate spreads—the difference between the death benefit growth rates on underlying policies and the investment returns generated on the assets we hold related to those policies. To manage these spreads, we regularly adjust pricing to reflect changes in new money yields.

Assurant Specialty Property

	For the Years Ended	
	December 31, 2014	December 31, 2013
<i>Net earned premiums by major product grouping:</i>		
Homeowners (lender-placed and voluntary)	\$ 1,743,965	\$ 1,678,172
Manufactured housing (lender-placed and voluntary)	237,576	226,058
Other (1)	524,556	475,814
Total	\$ 2,506,097	\$ 2,380,044
Fees and other income	\$ 301,048	\$ 133,135
Segment net income	\$ 341,757	\$ 423,586
Loss ratio (2)	43.3%	37.4%
Expense ratio (3)	46.5%	42.5%
Combined ratio (4)	85.2%	77.9%
Equity (5)	\$ 1,264,216	\$ 1,303,579

(1) Other primarily includes multi-family housing, lender-placed flood, and miscellaneous insurance products.

(2) The loss ratio is equal to policyholder benefits divided by net earned premiums.

(3) The expense ratio is equal to selling, underwriting and general expenses divided by net earned premiums and fees and other income.

(4) The combined ratio is equal to total benefits, losses and expenses divided by net earned premiums and fees and other income.

(5) Equity excludes accumulated other comprehensive income.

Products and Services

Assurant Specialty Property targets profitable growth in lender-placed homeowners insurance, and adjacent niches with similar characteristics, such as multi-family housing insurance, lender-placed flood insurance and other property risk management services.

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Lender-placed and voluntary homeowners insurance: The largest product line within Assurant Specialty Property is homeowners insurance, consisting principally of fire and dwelling hazard insurance offered through our lender-placed program. The lender-placed program provides collateral protection to lenders, mortgage servicers and investors in mortgaged properties in the event that a homeowner does not maintain insurance on a mortgaged dwelling. Lender-placed insurance coverage is not limited to the outstanding loan balance; it provides structural coverage, similar to that of a standard homeowners policy. The amount of coverage is based on the last known insurance coverage under the prior policy for the property, and provides replacement cost coverage on the

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property and thus ensures that a home can be repaired or rebuilt in the event of damage. It protects both the lender's interest and the borrower's interest and equity. We also provide insurance on foreclosed properties managed by our clients. This type of insurance is Real Estate Owned (REO) insurance. This market experienced significant growth in prior years as a result of the housing crisis, but has stabilized in recent years and is expected to decline.

In the majority of cases, we use a proprietary insurance-tracking administration system linked with the administrative systems of our clients to monitor clients' mortgage portfolios to verify the existence of insurance on each mortgaged property and identify those that are uninsured. If there is a potential lapse in insurance coverage, we begin a process of notification and outreach to both the homeowner and the last-known insurance carrier or agent through phone calls and written correspondence. This process takes up to 90 days to complete. If coverage cannot be verified at the end of this process, the lender procures a lender-placed policy for which the homeowner is responsible for paying the related premiums. The percentage of insurance policies placed to loans tracked represents our placement rates. The homeowner is still encouraged, and always maintains the option, to obtain or renew the insurance of his or her choice.

To meet the changing needs of the lending and housing industries, Assurant Specialty Property has worked with regulators to introduce a next generation lender-placed homeowners product to address some of the unanticipated issues that developed during the housing crisis. This product combines flexibility and best practices to address the concerns of various parties. The product contains expanded geographic ratings within each state to further differentiate rates for properties more exposed to catastrophes from those where the risk is lower, added premium rating flexibility from deductible options that can be modified based on factors such as coverage amount and delinquency status, and continued enhancements to our already extensive customer notification process to make it more clear to borrowers when they have lender-placed insurance.

Lender-placed and voluntary manufactured housing insurance: Manufactured housing insurance is offered on a lender-placed and voluntary basis. Lender-placed insurance is issued after an insurance tracking process similar to that described above. The tracking is performed by Assurant Specialty Property using a proprietary insurance tracking administration system, or by the lenders themselves. A number of manufactured housing retailers in the U.S. use our proprietary premium rating technology to assist them in selling property coverage at the point of sale.

Other insurance and mortgage services: We believe there are opportunities to apply our specialty insurance expertise to other products and services. We have developed products and services in adjacent and emerging markets, such as lender-placed flood insurance, multi-family housing insurance and mortgage property risk management services. In 2013, we acquired Field Asset Services (FAS), a company that leverages its nationwide network of independent contractors to perform property preservation, restoration and inspection services for mortgage servicing clients and investors. In April 2014, we acquired StreetLinks, a leader in valuation solutions and technologies, which is among the largest independent appraisal management companies in the United States. In September 2014, we acquired eMortgage Logic, a leading provider of property broker price opinions assisting mortgage servicing clients with determining property values. The acquisitions of FAS, Streetlinks and eMortgage Logic comprise our Mortgage Solutions business. We are also one of the largest administrators for the U.S. Government under the voluntary National Flood Insurance Program, for which we earn a fee for collecting premiums and processing claims. This business is 100% reinsured to the U.S. Government.

Marketing and Distribution

Assurant Specialty Property establishes long-term relationships with leading mortgage lenders and servicers. The majority of our lender-placed agreements are exclusive. Typically, these agreements have terms of three to five years and allow us to integrate our systems with those of our clients.

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We offer our manufactured housing insurance programs primarily through manufactured housing lenders and retailers, along with independent specialty agents. The independent specialty agents distribute flood products and miscellaneous specialty property products. Multi-family housing products are distributed primarily through property management companies and affinity marketing partners.

Our property risk management services are provided directly to mortgage lenders and servicers, typically under non-exclusive arrangements.

On January 1, 2015, we sold our general agency business and primary associated insurance carrier, American Reliable Insurance Company (ARIC) to Global Indemnity Group, Inc., a subsidiary of Global Indemnity plc. The business offers specialty personal lines and agricultural insurance through general and independent agents.

Underwriting and Risk Management

Our lender-placed homeowners insurance program and certain of our manufactured housing products are not underwritten on an individual policy basis. Contracts with our clients require us to issue these policies automatically when a borrower's insurance coverage is not maintained. These products are priced to factor in the additional underwriting risk from ensuring all client properties are provided continuous insurance coverage. We monitor pricing adequacy based on a variety of factors and adjust pricing as required, subject to regulatory constraints.

Because several of our product lines (such as homeowners, manufactured housing, and other property policies) are exposed to catastrophe risks, we purchase reinsurance coverage to protect the capital of Assurant Specialty Property and to mitigate earnings volatility. Our reinsurance program generally incorporates a provision to allow the reinstatement of coverage, which provides protection against the risk of multiple catastrophes in a single year.

Assurant Health

	For the Years Ended	
	December 31, 2014	December 31, 2013
<i>Net earned premiums:</i>		
Individual	\$ 1,544,968	\$ 1,174,141
Small employer group	400,484	407,266
Total	\$ 1,945,452	\$ 1,581,407
Fees and other income	\$ 40,016	\$ 29,132
Segment net (loss) income	\$ (63,748)	\$ 5,857
Loss ratio (1)	81.0%	73.9%
Expense ratio (2)	25.0%	27.0%
Combined ratio (3)	104.3%	99.6%
Equity (4)	\$ 443,385	\$ 295,206