
MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Assurant first quarter 2009 financial results conference call. This call is being recorded. All participants will be in a listen-only mode for the duration of the conference. There is a question-and-answer session at the end of the presentation. [Operator Instructions]. I would like now to turn the call over to Ms. Melissa Kivett, Senior Vice President, Investor Relations. Please go ahead, Ms. Kivett.

Melissa Kivett, Senior Vice President, Investor Relations

Thanks, Kelly. Welcome to Assurant's 2009 first quarter earnings conference call. Joining me today are Rob Pollock, our President and Chief Executive Officer of Assurant; Mike Peninger, our Chief Financial Officer; Craig Lemasters, our President and Chief Executive Officer of Assurant Solutions, and Chris Pagano, our Chief Investment Officer and Treasurer. Our prepared remarks will last about 25 minutes, after which time we'll open the call to your questions. And yesterday, we issued a news release announcing our first quarter 2009 financial results. The news release as well as corresponding supplementary financial information is also available on our website at Assurant.com.

Some of the statements we make during today's call may contain forward-looking information. Our actual results might differ materially from those projected in these forward-looking statements. We caution you about relying on these forward-looking statements and direct you to consider the discussions of risks and uncertainties associated with our business and results of operations contained in our 2008 10-K, as well as subsequently filed 10-Q and 8-K, which can be accessed from our website. The company undertakes no obligation to update or revise any forward-looking statements. Additionally, this presentation will contain non-GAAP financial measures which we believe are meaningful in evaluating the Company's performance. For more detailed disclosures on these non-GAAP measures, the most comparable GAAP measures and a reconciliation of the two, please refer to yesterday's earning release and the supplementary financial information that we've got on our website.

Now I'd like to turn the call over to Rob.

Robert B. Pollock, President and Chief Executive Officer

Thanks Melissa, and good morning, everyone. In 2009, the economic landscape is dramatically different than this time last year when Assurant posted record operating income. First quarter results reflect the adverse and uncertain economic conditions currently affecting consumers, businesses and global financial markets. I'm not happy with overall enterprise results this quarter, but our goal today is to explain them within the context of these realities. We pride ourselves in being forthright in our communications and today, we want to share with you what we're seeing in the marketplace and some of the steps we're taking to address the associated challenges. We want to reinforce that our financial foundation remains solid, and our diversified strategy will help us achieve our longer-term goals.

Since Craig and Mike will run through specific segment results, let me provide some general comments on the current environment. Macroeconomic conditions impact our business in different ways. But all segments are feeling the effects this quarter. Employers reducing or dropping benefits are affecting our Health and Employee Benefit businesses. The pull-back in consumer spending is impacting all of our businesses, and our Solutions business in particular. Our Property business is dealing with a variety of loan modification programs requiring more service from us to support our customers as well.

What actions are we taking to respond? Remember, at our core is a fundamentally strong business that's adaptive and flexible. In Solutions, we are finding new clients, distribution channels and executing on recent acquisitions to generate revenue. For instance, we anticipate that consumers may retain goods they own for longer time periods. We see this as an opportunity to renew or extend in-force service contracts and we are well positioned with our original equipment manufacturer customers to develop this strategy.

At Health, we continue to strengthen relationships with producers using technology and lead generation programs. At the same time, we are accelerating our efforts to reach consumers through both our website and direct response marketing. We are encouraged by recent new business sales activity driven by our product portfolio tailored to different segments of the consumer population. We are particularly pleased with sales results through our direct response and Internet channels.

At Benefits, we are developing new voluntary products targeted to situations where employers are scaling back on benefits they are paying on behalf of their employees. Voluntary sales were a bright spot in the quarter for Benefits and increased over the first quarter of last year.

In Property, we are supporting clients who are consolidating portfolios they have acquired. As Gene mentioned at Investor Day, we retained over five million loans that changed servicers from consolidation activities. This creates significant work for the new servicer, and we are working diligently to support them. Additionally, we are investing in infrastructure to expand services while lowering expenses as well as new products to build the business.

Let me comment on claim experience. Our medical results reflected an increase in utilization related to services performed in the fourth quarter, particularly on claims paid in March for services in December. Drilling into this further, we noted a significant increase in claims from people who had satisfied their medical deductible earlier in the year. These people increased their utilization in the fourth quarter by significantly more than anything we've seen historically.

In our disability products we did not see an increase in claim frequency or incidents. However, we did see a slowdown in recoveries. A priority in disability claims is to help claimants return to work. In an environment where there are fewer jobs available to return to, this is more challenging but something we've managed well historically.

We are monitoring morbidity trends carefully in our Health and Benefits businesses. We're prepared to take corrective actions if they are required. In a challenging growth environment, we are mindful that expense management is an area that remains within our control. We are prioritizing our discretionary resources to ensure they are properly allocated to areas we have targeted for long-term growth. We're reducing travel, consolidating some enterprise activities, and reviewing all job replacements and open positions to offset pressures we are experiencing from the economy. But I want to make it clear we're continuing to invest in our people through a variety of development programs aimed at our next generation of leaders.

Finally, we continue to monitor our investment portfolio carefully and make decisions appropriate for the environment. We've enhanced our financial flexibility by increasing liquidity and shortening the duration on new money invested. This is all part of our strategy to play defense by protecting our capital position first. We continue to be cautious of the risk adjusted returns associated with certain classes of assets. This approach has served us well historically as we've avoided problem assets found on many balance sheets. In aggregate, these decisions drove reductions in our investment income this quarter compared to 2008.

Let me make a few comments on our balance sheet. Our capital position is solid. We began 2009 with about \$230 million of excess capital, and we will add to that position over the course of the year. Dividends from our operating companies are weighted toward the second half of the year. This allows us to evaluate how the key drivers of our dividends are developing. These factors

include changes to Best's capital model, portfolio asset valuations, and business operating results, particularly storm activity within Property.

So with that overview of the economic conditions facing our business in 2009, let's now go deeper into each of the four businesses to look more directly at their results and opportunities ahead. I'll begin by turning it over to Craig Lemasters to talk in greater detail about Assurant Solutions. Craig?

S. Craig Lemasters, President and Chief Executive Officer, Assurant Solutions

Thanks Rob, and good morning everyone. Assurant Solutions continues to create value for our client partners, especially in a challenging economy. And we're also effectively mixing offense and defense to both protect and grow our business amid the global economic slowdown.

Net operating income was \$30.3 million for the quarter. Although this was down 36% compared to the first quarter of 2008, remember that 2008 included a benefit from a client settlement of \$11.7 million. Sequentially, quarterly results improved as the risk management and expense control actions we have taken began to improve results.

Let me outline how our results developed in more detail. Internationally, our combined ratio increased from 102.3% in the first quarter of 2008 to 107.3% in 2009. As I discussed at Investor Day, we're experiencing high claim activity for unemployment coverage sold primarily through an Internet distribution channel in the UK. We have already taken actions to improve the results in this channel and we expect the impact of these risk management initiatives to emerge later this year. It is important to remember that the majority of our credit insurance programs are structured with extensive risk mitigation provisions.

Sequentially, the international combined ratio decreased from the fourth quarter by 670 basis points; key contributors to the improvement were additional expense controls, no one-time Denmark exit cost and improved underwriting results, particularly in Brazil. In our domestic business the combined ratio for the first quarter increased from 96.5% in 2008 to 98.3% in 2009. However, the 2008 combined ratio was favorably affected by a client settlement of \$11.7 million. Absent this settlement, the combined ratio declined by 220 basis points. This decrease resulted from improved domestic loss experience driven primarily by our integration of the acquisitions of GE's Warranty Management Group and of Signal Holdings. These same factors also drove a sequential improvement in our combined ratio by 330 basis points.

Turning next to revenues, we continue to focus on growth in targeted areas through expansion of our client and distribution footprint. We are proactively taking steps to improve our position rather than just waiting for the economic recovery. Although first quarter net earned premiums decreased by 6% to \$644.6 million, it was largely a result of two factors that must be considered.

First, we began accounting for newly sold preneed contracts beginning in 2009 according to FAS 97, which governs universal life type policies. And this differs from FAS 60 accounting, which we used prior to 2009, and this change caused a \$32 million reduction in premiums. However, it did not have any impact on our bottom line. Second, changes in foreign exchange rates from a strengthening dollar reduced premiums in our international operations by 5.4% for the quarter. Absent these two items, we would have reported a very slight increase in net earned premiums.

International gross written premium is down 14% from the first quarter of 2008. However, excluding the impact of foreign exchange, gross written premium actually grew 3% in the first quarter. While the overall global economic slowdown is hurting our top line in many markets such as Europe, other markets such as Canada and Latin America are holding up much better.

Domestically, gross written premiums for service contracts fell by over 37%, primarily due to the bankruptcy of Circuit City, but also combined with the overall slowdown in consumer spending. Remember, we don't need to immediately replace the Circuit City top line in order to continue growing our profit.

As Rob mentioned, despite the current economic environment, we're actively finding ways and opportunities to play offense to temper these headwinds. We're very active with our client partners to help them generate revenue. For example, automakers have experienced a dramatic decline in vehicle sales. They've worked very hard to develop programs to help get potential buyers to visit showrooms. And recently we began a new partnership with Ford to underwrite and administer their new Ford Payment Protection Program. We think this is a great opportunity to grow our 15 year relationship with Ford and see this as another example of our ability to play offense in these challenging economic times.

Overall, we are seeing an increased level of sales opportunities and I'm pleased that we have a successful track record winning new clients as well as renewing existing ones. The exclusive agreement with Whirlpool that we entered into in late 2008 will begin to generate new service contract sales in the third quarter of this year. Combined with our Warranty Management Group acquisition from GE, we're very well positioned to increase sales of service contracts in the original equipment manufacturer space over the next several years.

We've also now successfully launched a credit insurance program with the Royal Bank of Canada, the country's largest bank. And in addition to the wins I previously mentioned, we've also won the renewal of the Best Buy Canada service contract business. And based on our track record with Best Buy in Canada combined with our global client management process, I'm pleased to announce that we've also launched a new service contract program with Best Buy in their initial store in Mexico City. Overall, we're making solid progress building our sales and on our premium for 2010 and beyond.

The integration of Signal Holdings is going very well and we believe we're now well positioned, with a complete set of capabilities, excellent products, excellent repair and logistics capability and most importantly, an experienced team that is energized and very motivated to expand our wireless market share both domestically and internationally.

So in summary, despite the difficult economy, I'm extremely pleased with the progress in gaining new clients, entering new distribution and taking swift, corrective action when needed, all of which will lead to continued long-term growth and improve profitability.

Now I'd like to turn the call over to Mike.

Michael J. Peninger, Executive Vice President and Chief Financial Officer

Thanks Craig, for sharing how Assurant Solutions is playing both offense and defense as it navigates through these challenging times.

Turning now to the results for the rest of the company I'll start with Assurant Specialty Property. Specialty Property's net operating income was \$104.7 million, down 16% versus an exceptional first quarter of 2008, but the business continues to produce very solid results. As a reminder, first quarter 2008 results reflected a \$4.6 million after-tax benefit from a client related settlement and unusually mild winter weather. The first quarter of 2009 saw a return to more normal winter weather patterns and higher loss experience. In addition, we incurred additional catastrophe reinsurance premiums due to growth in our block and a harder reinsurance market, which reduced net earned premiums by \$13 million and after-tax earnings by \$8.4 million.

Expenses increased in the first quarter of 2009 compared to 2008 due to additional services we are providing our clients such as loss stress, along with investments in technology, infrastructure and businesses that will drive future growth such as CPI. Also, the client related settlement in the first quarter of last year reduced expenses in that quarter.

We placed over half of our catastrophe reinsurance program in January and plan to complete the remainder this quarter. I do want to note that we expect the total cost of the program to be substantially higher than the cost of the 2008 program due to the combination of our growth and the hard reinsurance market. We will update you on all the details of the program's structure and costs as soon as the placements are completed early this summer.

Net earned premiums for Specialty Property increased 3% to \$493.8 million in the first quarter, driven by continued growth in the creditor-placed business. The sequential rate of premium growth is slowing. As we mentioned at our Investor Day, due to further consolidation in the home mortgage industry, we lost approximately 200,000 subprime loans this quarter. Since the policies related to these loans had higher than average placement rates and all the policies lapsed during the quarter, their loss had an immediate impact on our first quarter top and bottom lines. They also contributed, along with increased levels of loan modifications and foreclosure moratoriums, to the decline in real estate owned premiums in the quarter.

The number of mortgage loans outstanding continues to decline across the country since new loan originations are not offsetting loans being paid off or foreclosed. However, we continue to be well positioned in the marketplace for the long-term. We were very pleased to win a new account that will add 300,000 subprime loans tracked to our portfolio. This account will slowly begin producing premium for newly placed policies in the third quarter.

Excluding loans lost in consolidation, we continue to see increases in placement rates and average insured values, albeit at lower levels than in the past. We are pleased with the results in our Property business and believe it continues to validate our strategy of pursuing opportunities out of the mainstream where we can leverage our capabilities to create value for our clients and shareholders.

Now let's move to Assurant Health where net operating income was down significantly this quarter to \$14.7 million, a decrease of 61%. The decrease is due to unfavorable claim reserve development across all product lines. As Rob mentioned, we experienced high medical utilization rates in the fourth quarter of 2008. Let me provide a bit more color in what we are seeing.

Our reserving methodology at year-end was consistent with past practices, and we expected to see margin development consistent with that of prior years. Instead, we saw a significantly worse than expected development relative to those reserves. In particular, March paid claims for services in the fourth quarter ran at unprecedented levels. Overall, the experience indicates a sudden and substantial spike in utilization during the fourth quarter. Importantly, the utilization increase primarily impacted our renewal book of business and it affected all parts of the book as opposed to being confined to certain segments.

We also noted that in our Group business, fourth quarter claims on customers who subsequently canceled their policies in 2009 were higher than the corresponding cohorts in prior years. We could be seeing a random fluctuation in experience, but that is unlikely in a block as large as ours. We believe it is more likely that utilization patterns changed in the fourth quarter due to economic stress, or consumer fear of loss of insurance coverage. In that case, much of the change may have represented an effort by consumers and providers to address healthcare concerns prior to the end of 2008. The suddenness of the fourth quarter change creates more uncertainty than normal in setting our March 31st reserves. In calculating those reserves, we assumed that experience for services provided in the first quarter would return to more typical levels. If that assumption is correct, results should improve over the rest of 2009. On the other hand, if fourth quarter utilization

rates persist, our results will continue to be negatively impacted. We are closely monitoring emerging experience and will make pricing or plan design changes as appropriate.

Net earned premiums at Assurant Health were \$472.3 million for the quarter, down 5% from 2008. Individual medical net earned premiums were down only 1%, while small group premiums continue to trend down and declined by 15% for the quarter. Individual medical premiums reflect a decrease in covered lives partially offset by higher premiums per member. Lapse rates increased during the quarter, reflecting the impact of the economy and the competitive marketplace.

Sales were up versus the first quarter of 2008 and sequentially as we continue to benefit from our marketing efforts and broad product portfolio. In contrast to the renewal book of business that I discussed earlier, new business experience is running at priced-for levels. As healthcare reform discussions continue to take place in Washington, we remain active participants in the process and believe that individual health coverage will be an important part of any successful reform initiative. Despite a challenging quarter, Assurant Health remains focused on providing affordable healthcare options for Americans, staying a part of the healthcare dialogue and maintaining our disciplined approach to managing our business.

Now let's move to Assurant Employee Benefits. At Employee Benefits, net operating income was \$7 million, down 57% compared to a very strong first quarter in 2008. The decline was driven primarily by higher loss experience, though results were also negatively impacted by a decrease in investment income of \$2.7 million after-tax compared with 2008. Long-term disability insurance is a low frequency, high severity product, so variations in results from quarter to quarter are not unusual. Our disability experience in the first quarter of 2008 was extremely favorable. In 2009, we saw a continuation of incidence trends measured by number of claims, but the average claim size increased. More notably, claim recovery rates were significantly lower than last year. It is not surprising in the current economy that it is more difficult and time consuming to return claimants to work. Our claim staff continues to help financially challenged employers accommodate returns to work. Even in these difficult times, we generally find that our small employer customers do want to get their employees back to work and we continue to benefit from our small employer focus.

Net earned premiums were \$263.8 million, a decrease of 6% for the quarter. The decrease was partially driven by the loss of a handful of clients in our alternate distribution channel, Disability RMS. The prior year also included \$5.5 million of single premiums on closed blocks of business versus no such premiums this year.

The employment picture represents a top line growth challenge for the Benefits business. Important drivers of growth in net earned premiums include new hires and salary increases for workers. These trends have been curtailed by the current economic environment along with new sales. Assurant Employee Benefits will continue to maintain pricing discipline focused on expense management and look to leverage growth opportunities in voluntary products and alternate distribution through Disability RMS. Our corporate and other operating results were generally consistent with our expected quarterly run rate, with the exception of \$4.6 million after-tax of previously reported compensation expenses in the quarter.

Our investment portfolio continued to perform relatively well, in part due to actions we took in 2008 to lower the overall risk profile. During the quarter, we realized just over \$30 million of pre-tax losses due to sale. This includes a \$21.7 million pre-tax loss from the sale of our Citigroup DRD exposure. We also realized about \$25 million in pre-tax losses due to other than temporary impairments. This is the smallest impairment loss for the portfolio since the third quarter of 2007.

In the first quarter, we chose not to early-adopt the FASB Staff Positions issued in April of 2009 relating to investment valuation and impairment. We continue to use independent pricing services to value our available-for-sale investments, which comprise the vast majority of our financial assets. The portfolio's unrealized loss position increased by \$153 million pre-tax from December 31, 2008,

consistent with the overall credit markets. Our commercial mortgage portfolio continues to perform well with no delinquencies through the first quarter. We remain focused on disciplined risk management, which may result in lower investment income over the near term. However, we believe that this is the prudent approach right now and we anticipate that better risk adjusted yields will be available longer term.

As Rob mentioned, our capital position remains solid and our businesses continue to generate cash earnings. We have no debt maturing until 2014, low asset leverage of 3.2 to 1, and a low debt to equity ratio of 18%. Our book value per diluted share excluding AOCI continues to grow and our book value per share including AOCI has been relatively flat for the past two quarters.

In conclusion, while economic pressures impacted our results in the first quarter and we continue to be very protective of our balance sheet, we remain confident in our specialty strategy and will look to leverage our financial strength to position our company for growth when economic recovery takes place.

Now I'll turn things back to Rob to open the floor for questions.

Robert B. Pollock, President and Chief Executive Officer

Thanks, Mike. Operator, we're ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The question and answer session will be conducted electronically. [Operator Instructions]. And we'll take our first question from John Nadel with Sterne, Agee.

<Q – John Nadel>: Good morning, everybody.

<A – Robert Pollock>: Good morning, John.

<Q – John Nadel>: A couple of quick ones if I could – so on Specialty Property. Can we just talk a little bit more about the drivers here, as it relates to what we should expect for premiums? So the loans tracked number is down, the insured values, at least if I look sequentially are down for the first time that I can recall. It sounds like rates -- unlikely to be a real positive driver from here. And Mike mentioned reinsurance costs "substantially higher". I'm wondering, I guess, just as it relates to that specific item, if your rate on line, if you expect that to be substantially higher, or is it just that absolute cost will be up because of the growth of the business? But overall I mean, ex some major change positively or negatively in loans tracked, should we just expect -- I think we should, but maybe you could just comment, should we just expect a general continued decline in earned premium in this segment from here forward?

<A – Robert Pollock>: Okay. John, if we look at the Property business, again I think the growth drivers have slowed, total insured value et cetera. The big issue is if you look at the business, I would say we're in the late innings on both the REO business as well as the subprime business.

<Q – John Nadel>: Yeah.

<A – Robert Pollock>: We did see an expansion in our placement rate in the prime portfolio.

<Q – John Nadel>: The prime, yeah. Okay.

<A – Robert Pollock>: Again, this is a business we like. We obviously pointed out that we can win new clients when they go to RFP. We think we're well-positioned to do that and we are looking to expand into the similar product for auto; obviously there is not that many auto loans being generated these days, but we do see opportunities to expand on the platform.

<Q – John Nadel>: Yeah, and don't take me wrong. I'm not arguing the validity of the business; I think it's a great business. I'm just trying to understand where we should expect it to go from here.

<A – Robert Pollock>: Sure.

<Q – John Nadel>: In terms of size, not necessarily in terms of returns. I think the returns are very solid, obviously. Maybe on the reinsurance costs, you could just hit that real quick?

<A – Robert Pollock>: Sure...

<Q – John Nadel>: As it relates to -- I mean is that just more, substantial growth is just in absolute terms, because of the book of business growth, or should we also expect some meaningful level of increase because rental lines are going up?

<A – Robert Pollock>: Yeah. And I've got support here, but let me take a few comments and make them. One – because our block has grown, we buy to a certain level of coverage. We've typically bought to something in the 1 in 250 years storm level, again our model supports doing that, but our coverage amounts are quite a bit higher than they were a year ago.

<Q – John Nadel>: Yeah.

<A – Robert Pollock>: Second, because of a variety of activities in the reinsurance market prices are higher. Third, a contributing factor in reinsurance is the Florida market. And Chris, do you want to just talk about how the Florida market's developing?

<A – Christopher Pagano>: Well -- I mean for us the key issue there in terms of the percent increase in reinsurance premiums is the fact that we're unlikely to participate in the tickle layer, buying that insurance in the private market and as you know in the past tickle has been a subsidized rate on line effectively and without that, that component of the reinsurance program is going to cost more.

<Q – John Nadel>: Okay.

<A – Michael Peninger>: So, we've got a lot of factors going on there, John. And so what we're doing now is, as I said we are finalizing the structure of the program which would also include thinking about the attachment points and the sheer size of the coverage layers and things like that. So you have a lot of different things going on there.

<Q – John Nadel>: Okay. And then just if I could switch gears over to Health and then I'll jump back in the queue. You know I understand Mike, your comments, that it may be pretty tough at this point to discern whether this change in activity was a blip or is something that's going to continue from here. I'm just wondering -- or maybe I am just -- I'd be interested in whether you guys have -- I guess we're having a fire alarm here. I'd be interested in whether you guys have the kind of data on a monthly basis or some shorter term period to be able to give us an update on that sooner than your second quarter result. I'm just thinking about the drag here, \$0.08 to \$0.10 a share in the quarter, so roughly \$0.30 to \$0.40 drag for a full year if it were to maintain itself -- anything you can say in that regard?

<A – Michael Peninger>: Well, it's a little bit hard to give you updates during the quarter, John, because we'd have to have a forum -- if we have a forum, a public forum where we can update everyone at the same time we'd certainly consider doing that, because I know it's of interest, but...

<Q – John Nadel>: I'd be happy to host the call for you guys whenever you are ready.

<A – Robert Pollock>: That's fine, but I mean again, you are right, putting it in context, when we talked at Investor Day, we had...

<Q – John Nadel>: Yeah.

<A – Robert Pollock>: Looked at a couple months' experience...

<Q – John Nadel>: And you didn't see it.

<A – Robert Pollock>: And March came in decidedly different than we'd seen in the first couple months.

<Q – John Nadel>: Yeah.

<A – Robert Pollock>: So -- understand your point.

<Q – John Nadel>: Okay thanks. I'll jump back in, thank you.

<A – Robert Pollock>: Okay.

Operator: And we'll take our next question from Mark Hughes with SunTrust.

<A – Robert Pollock>: Good morning, Mark.

<Q – Mark Hughes>: Good morning, thank you very much. These are pretty volatile times, I guess economically, do you sense any change in consumer behavior in recent months or weeks that might help or hinder the Solutions business?

<A – Robert Pollock>: Well I just -- we know everyone is a bit stressed, I know -- on the consumer side I thought it was interesting that we saw a little bit of favorable signs announced just yesterday that the consumer may be coming in, how that translates and where the spending goes we're obviously looking forward to show up, in Craig's area in particular, purchases of things, and let me just have him expand on it.

<A – S. Craig Lemasters>: Yeah, Mark I mean we haven't seen any dramatic movement in the first quarter, again our drop in top line was largely because of Circuit going away, but below Circuit, again, from the core electronic retailers, we saw some of our clients that were fairly flat quarter-over-quarter, which was a relatively positive sign in these times. Our auto clients continue to be way down, I think that tracks with what's going on in the industry. I think what was encouraging for us this quarter was again, this notion of playing offense and not waiting on this to get materially better because none of us know when that's going to happen. So I was particularly pleased with things like launching RBC in Canada, getting our OEM direct stuff integrated -- Rob mentioned it earlier, that's a perfect example I think where we're not just going to rely on point of sale as we go forward, we've got a mechanism we've built -- we have this direct machine now where we can extend existing service contracts, which we think is going to bode well as people are going to tend to hang on to their appliances and other equipment longer.

<Q – Mark Hughes>: And then with respect to penetration in the prime category -- it's been moving up, but obviously delinquencies and foreclosure starts are moving up pretty rapidly as well. Is there anything that accelerates the pace of that penetration in the prime category?

<A – Robert Pollock>: Well, there's just such a myriad of factors going on right now, Mark. I mean, as I think we've mentioned on prior calls, one of the issues here is how the servicer deals with things like a loan restructuring, et cetera, and we've found that to be very servicer specific. But one thing I do want to point out that we do know is that for most of the prime category, we don't benefit from REO. So, the subprime, we can write REO on but Fannie and Freddie self-insure all their real state-owned property. So, that will exhibit a bit of a different dynamic as well.

<Q – Mark Hughes>: Okay, thank you.

<A – Robert Pollock>: Sure.

Operator: And we'll take our next question from Adam Klauber with Fox-Pitt.

<A – Robert Pollock>: Good morning, Adam.

<Q – Adam Klauber>: Good morning Rob, thanks. On the health and disability loss ratios, is there anything you can do proactively now that you're seeing some of these trends to reduce them over let's say the next 12 months?

<A – Robert Pollock>: Well, sure -- I mean in essence, we'll look and try and determine if there were benefit provisions that might need to be scaled back, that's something we could do. We've looked at experience on certain of our plans where we've integrated the deductible and seen the experience to be different from when it's separate per member. So, that's normal course of business stuff for us, Adam, to be tweaking with things on a regular basis. I think the fundamental thing here we're also seeing is, as the consumer wants to use benefits, et cetera, they're after more

first dollar benefits and we have offerings out there actually and are getting quite a bit of sales under that where in my mind we're going to have much less kind of severity exposure, but they will use the benefit more and we're trying to put those in play to deal with things as well. Obviously, we honor the contract that's out there for the existing people and I think it's a demonstration of the value of the benefits that they are using them and in cases where they are afraid they're going to lose them, they go and use the benefits. And we're going to honor all those things of course.

<A – Michael Peninger>: Yeah, and I'd just make a couple of additional points to add to what Rob said, I mean – first, just to remind everyone that if we conclude that pricing changes are needed it does take time to roll those through, because you've got to wait till expirations of rate guarantees and things like that.

The other point I would make on the Benefits business is we certainly work in a variety of ways with employers to find creative ways to return claimants to work, which we think is the best outcome of a disability, is for somebody to go back to work. So, if the employment situation starts to improve that could certainly have a definite impact there and even if it doesn't then we're kind of redoubling our efforts and we've historically done very well at returning people back to work and we think that's a good spot to be in the small employer market too.

<Q – Adam Klauber>: Okay, thanks. As far as the investment yield, do you see any rebound in the near-term?

<A – Christopher Pagano>: Well, a couple of things on our investment strategy at this point, I mean we're being defensive again tactically, maintaining greater levels of liquidity, investing in shorter duration assets than we might typically do. But keep in mind that's a tactical decision. I think if you look at what's gone on in the Treasury Market at least since year-end you've seen quite a substantial increase in treasury yields with an associated uptick in investment grade yields. I think there, the opportunities are starting to present themselves for us to redeploy into high quality defensive sectors and to replace yields that are rolling off either through maturities or coupon flow.

I think if you look at the numbers in the supplement, you'll see that we have been successful maintaining the investment yields in the fixed income and the equity side, and it's just a question of, the drag on the yield right now has largely been a function of cash yields drifting lower. What we've done to offset that is redeploy some of the cash into two and three year duration, high-quality corporates, TLGT assets, et cetera. So, we're able to offset it in the near-term as we maintain the defensive strategy.

The other thing that we know is that the market won't wait for the Fed to stop some of the strategies that they're employing to artificially suppress yields. And so, we'll start to see some opportunities and better risk adjusted yields going forward.

<Q – Adam Klauber>: Okay. And just finally, can you remind us when will you get the results of the A.M. Best review?

<A – Robert Pollock>: Well, A.M. Best visits with us on an annual basis. I think maybe the key thing you're focusing in on Adam is when will we have the new capital formulas?

<Q – Adam Klauber>: Right.

<A – Robert Pollock>: Yeah, we'll visit with them during the second quarter of this year and should be able to update you on what we have learned on our next call.

<Q – Adam Klauber>: Great. Thank you very much, Rob.

<A – Robert Pollock>: Sure.

Operator: [Operator Instructions]. And we will take our next question from John Nadel with Sterne, Agee.

<A – Robert Pollock>: Hey, John.

<Q – John Nadel>: Oh, hey, I didn't expect to get back in that quick. Sorry about that, all right, let me get myself back in gear here. So, Solutions – so Craig I mean listen, this is the first quarter in a while you get to, we get to all be happy about the improvement in combined ratios, domestic, international et cetera. I guess my question there is was there anything in the quarter that you think we should consider as unsustainable or one-time in nature that helped to drive these combined ratio results?

<A – S. Craig Lemasters>: Nothing specific; first of all, thank you John, if you're happy, I'm happy. No, nothing specific, but again, I think our headwinds, I've tried to be real open about starting at Investor Day, you know, the UK IUR, unemployment loss experience there, we've taken all the I think right actions, that's going to take several more quarters to work through so I expect improvement from that later in the year. But again, that's predicated on projections in unemployment and we did see a big jump in the first quarter, which...

<Q – John Nadel>: Yeah.

<A – S. Craig Lemasters>: If you go back to the fourth quarter nobody was predicting.

<Q – John Nadel>: Okay.

<A – S. Craig Lemasters>: Now hopefully that's stabilized. So that's sort of one headwind and then just the general economy, I mean, and one interesting thing is Mexico for example. I mean, didn't have the swine flu on the horizon and that...

<Q – John Nadel>: Yeah.

<A – S. Craig Lemasters>: Our operations are ongoing there, that will have a slowdown; obviously people aren't out shopping right now.

<Q – John Nadel>: Yeah.

<A – S. Craig Lemasters>: And so, that's an interesting headwind. But other than that, I'm pleased with our, you know the things we've been working on the last two years in terms of improving our core results, the risk management things, all the defensive things we've done, closing Denmark, fixing the Brazil credit insurance situation.

<Q – John Nadel>: For sure.

<A – S. Craig Lemasters>: Those are starting to take hold, and again, reasonably pleased with some of the offensive moves that we've done the last quarter.

<Q – John Nadel>: And Craig, can you help us think about the continued sort of drag from here from the loss of Circuit City? Is that at this point in your view, when you think about the gross written premium in domestic, is that at this point fully embedded?

<A – S. Craig Lemasters>: Yeah, that's in full, that's gone so, yeah, you're seeing...

<Q – John Nadel>: Okay.

<A – S. Craig Lemasters>: The full impact of Circuit.

<Q – John Nadel>: Yeah.

<A – S. Craig Lemasters>: And that's a big part of our gross written decline.

<Q – John Nadel>: Can you give us a sense for how much of that decline was just Circuit City no longer being there?

<A – S. Craig Lemasters>: Right, I think we've talked a moment when they first went into, or headed towards bankruptcy it was about 20% of our service contract top line domestically.

<Q – John Nadel>: Yeah, okay, okay. Thank you. And then the last thing is when you think about the UK credit and this Internet-based product. As you think about the, you sort of said later this year some improvement is expected there, any way of thinking about what that means to the combined ratio?

<A – S. Craig Lemasters>: Well, again, we took the corrective actions. We did everything we could to mitigate the losses going forward. Now obviously we stick with our policyholders and as those work through the system, that's why I am saying that you know that stuff will be around for a number of quarters. Our goal is to see some level of improvement sequentially as we work through those issues in the UK. And again, I'm comfortable that our team is taking all the right actions.

I would note also, in addition to really trying to mitigate the losses, it's also given us an opportunity and great motivation just overall to try to lower our expense base in the UK, and again our team is taking good action there. On the offense side, again if you go back to our Swansure and Centrepoint acquisitions...

<Q – John Nadel>: Yeah.

<A – S. Craig Lemasters>: This has also been a good time to grow that footprint. If you remember that was our strategy, to really have a nice dominant footprint in that network and we're seeing that we're able to do it in this downtime.

With all that said, the way I think about the UK now is when we do get to recovery, I'm not sure when that will come, but when it comes I see a company there that will have a generally lower expense base and a better footprint.

<Q – John Nadel>: Okay, okay. Last one for you, Rob.

<A – Robert Pollock>: Sure.

<Q – John Nadel>: As you think about the results for the quarter, and I'm sure, I mean you already said it – disappointing results. Do the results this quarter as you look forward for the remainder of the year, does it change your expectations or the company's expectations with respect to free cash flow generation for the year?

<A – Robert Pollock>: Well, I think it's too early to know on a lot of different dimensions there.

<Q – John Nadel>: Okay.

<A – Robert Pollock>: But obviously, I think the biggest variable for us is really the storm season, John.

<Q – John Nadel>: Okay.

<A – Robert Pollock>: I'd say that's number one. I'd say number two is just asset valuations in the portfolio. Those would be, I think the one and two considerations.

<Q – John Nadel>: Okay. I mean, credit certainly during the month of April has been markedly improved. So, I mean all else equal, if you just marked your portfolio to now, right, I mean book value would have to be higher.

<A – Robert Pollock>: I believe that would be the case.

<Q – John Nadel>: Yeah, okay.

<A – Christopher Pagano>: Yeah, John, I mean again the metric that we kind of look at, the rule of thumb that we suggested on a number of occasions is to look at the broad investment grade market and we've seen quite a significant improvement in April and I think...

<Q – John Nadel>: Yeah.

<A – Christopher Pagano>: The unrealized loss position is moving -- continues to move in a manner that's similar to the broad investment grade, the Merrill Lynch – Bank of America Investment Grade Corporate Index, so if you continue to use that as a rule of thumb.

<Q – John Nadel>: Okay. Terrific, thanks Chris.

Operator: Having no further questions, I would like to turn the conference over to Rob Pollock for any additional closing comments.

Robert B. Pollock, President and Chief Executive Officer

Although the economy may continue to operate below capacity in the near term, at our core is a fundamentally strong diversified specialty insurance business. By design, it's flexible and dynamic. This allows us to adapt to changing market conditions and the evolving needs of our clients and customers. We look forward to updating you on our progress next quarter.

Operator: This does conclude Assurant's First Quarter 2009 Call. Please note that a replay will be available as of 12:00 P.M. Eastern Time. You may now disconnect.

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