

ASSURANT INC
Form 10-K
March 01, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006

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)

39-1126612
(I.R.S. Employer

Identification No.)

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One Chase Manhattan Plaza, 41st Floor

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

10005
(Zip Code)

Registrant's telephone number, including area code:

(212) 859-7000

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
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 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

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

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

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Large accelerated filer Accelerated filer Non-accelerated filer

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 \$5,036 million at June 30, 2006 based on the closing sale price of \$48.40 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 15, 2007 was 122,346,154.

Documents Incorporated by Reference

Certain information contained in the definitive proxy statement for the annual meeting of stockholders to be held on May 17, 2007 (2007 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, 2006

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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 may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as outlook, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates those words or other comparable words. 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. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in this report. We believe that these factors include but are not limited to those described under the subsection entitled Risk Factors in Management's Discussion and Analysis of Financial Condition and Results of Operations. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements you read in this report reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, financial condition, growth strategy and liquidity.

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PART I

Item 1. Business

Legal Organization

Assurant, Inc. (Assurant) 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 (NYSE) on February 5, 2004. Prior to the IPO, Fortis, Inc., a Nevada corporation, had formed Assurant and merged into it on February 4, 2004. The merger was executed in order to redomesticate Fortis, Inc. from Nevada to Delaware and to change its name. As a result of the merger, Assurant is the successor to the business operations and obligations of Fortis, Inc.

Prior to the IPO, 100% of the outstanding common stock of Fortis, Inc. was owned indirectly by Fortis N.V., a public company with limited liability incorporated as naamloze vennootschap under Dutch law, and Fortis SA/ NV, a public company with limited liability incorporated as société anonyme/naamloze vennootschap under Belgian law. Following the IPO, Fortis N.V. and Fortis SA/ NV, through a wholly owned subsidiary Fortis Insurance N.V., owned approximately 35% (50,199,130 shares) of the outstanding common stock of Assurant.

On January 21, 2005, Fortis N.V. and Fortis SA/ NV, through a wholly owned subsidiary Fortis Insurance N.V., owned approximately 36% (50,199,130 shares) of the outstanding common stock of Assurant based on the number of shares outstanding that day and sold 27,200,000 of those shares in a secondary offering to the public. Assurant did not receive any of the proceeds from the sale of shares of common stock. Fortis N.V. received all net proceeds from the sale and concurrently sold exchangeable bonds, due January 26, 2008, that are mandatorily exchangeable for their remaining 22,999,130 shares of Assurant. The exchangeable bonds and the shares of Assurant s common stock into which they are exchangeable have not been and will not be registered under the Securities Act of 1933 (Securities Act) and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

In this report, references to the Company, Assurant, we, us or our refer to (1) Fortis, Inc. and its subsidiaries, and (2) Assurant, Inc. and its subsidiaries after the consummation of the merger described above. References to Fortis refer collectively to Fortis N.V. and Fortis SA/ NV. References to our separation from Fortis refer to the fact that Fortis reduced its ownership of our common stock in connection with the secondary offering.

Dollar amounts are presented in U.S. dollars and all amounts are in thousands, except number of shares, per share amounts, registered holders, number of employees and beneficial owners.

Business Organization

Assurant s mission is to be the premier provider of specialized insurance products and related services in North America and selected international markets. To achieve this mission, we focus on the following areas:

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Building and maintaining a portfolio of diverse, specialty insurance businesses

Leveraging a set of core capabilities *managing risk; managing relationships with large distribution partners; and integrating complex administrative systems* for competitive advantage

Managing targeted growth initiatives

Identifying and adapting to evolving market needs

Centralizing certain key functions in the Corporate segment to achieve economies of scale

Building and maintaining a portfolio of diverse, specialty insurance businesses We currently are made up of four operating business segments each focused on serving specific segments of the insurance market. We

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believe that the uncorrelated nature of the risks in our businesses allows us to maintain a greater level of financial stability since our businesses will likely not be affected in the same way by the same economic and operating trends.

Leveraging core capabilities for competitive advantage We pursue a differentiated strategy of building leading positions in specialized market segments for insurance products and related services in North America and selected international markets. These markets are generally complex, have a relatively limited number of competitors and, we believe, offer attractive long-term profitable growth opportunities. In these markets, we leverage the experience of our management team and apply our core capabilities for competitive advantage *managing risk; managing relationships with large distribution partners; and integrating complex administrative systems*. These core capabilities represent areas of expertise which are evident within each of our businesses. We seek to generate insurance industry top-quartile returns by building on specialized market knowledge, well-established distribution relationships and economies of scale. As a result of our strategy, we are a leader in many of our chosen markets and products.

Managing targeted growth initiatives Our approach to mergers, acquisitions and other growth opportunities reflects our prudent and disciplined approach to managing our business. We make decisions based on strict guidelines ensuring that any new business will support our business model. We have established performance goals related to short-term incentive compensation for senior management based on those and other initiatives.

Identifying and adapting to evolving market needs Assurant's businesses adapt quickly to changing market conditions by tailoring product and service offerings to specific client and customer needs. This flexibility was developed, in part, as a result of our entrepreneurial culture and the encouragement of management autonomy at each business segment. By understanding the dynamics of our core markets, we design innovative products and services and seek to sustain long-term profitable growth and market leading positions.

Centralizing certain key functions in the Corporate segment to achieve economies of scale At the Corporate level, Assurant, Inc. provides strategic management and key resources for its operating businesses, including asset management, employee benefits, finance, treasury, tax, accounting, legal, organizational and leadership development, mergers and acquisitions and communications. We also provide support services in such areas as information technology, financial and human resources systems management, enabling the operating business segments to focus on their target markets and distribution relationships while enjoying the economies of scale realized by operating these businesses together and benefiting from being part of a larger, diversified specialty insurance company. Our overall strategy and financial objectives are set and continuously monitored at the corporate level to ensure that our capital resources are being properly allocated.

Competition

Assurant's businesses focus on niche segments within broader insurance markets. While we face competition in each of our businesses, we believe that no single competitor competes against us in all of our business lines and the business lines in which we operate are generally characterized by a limited number of competitors. Competition in our operating business segments 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 depends on the particular product and market. We compete for customers and distributors with insurance companies and other financial services companies in our various businesses.

Assurant Solutions and Assurant Specialty Property face competition in their product lines, but we believe that no other company participates in all of the same lines or offers comparable comprehensive capabilities as these two businesses. Competitors include insurance companies, financial institutions and, in the case of preneed regional insurers. Assurant Health's main competitors are other health insurance companies,

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Health Maintenance Organizations (HMOs) and the Blue Cross/Blue Shield plans in states where we write business. Assurant Employee Benefits competitors include other benefit and life insurance companies, dental managed care entities and not-for-profit dental plans.

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On April 1, 2006, the Company separated its Assurant Solutions business segment into two business segments: Assurant Solutions and Assurant Specialty Property. In addition, concurrent with the creation of the new Assurant Solutions and Assurant Specialty Property segments, the Company realigned the Preneed segment under the new Assurant Solutions segment. Segment income statements for the years ended December 31, 2005 and December 31, 2004 and segment assets for the year ended December 31, 2005 have been recast to reflect the new segment reporting structure.

Assurant Solutions

	For the Year Ended	For the Year Ended
	December 31, 2006	December 31, 2005
Gross Written Premium for selected product groupings (1):		
Domestic Credit	\$ 714,791	\$ 767,466
International Credit	\$ 680,097	\$ 647,467
Domestic Extended Service Contracts(2)	\$ 1,258,292	\$ 1,120,227
International Extended Service Contracts(2)	\$ 341,886	\$ 247,506
Preneed (face sales)	\$ 433,510	\$ 542,512
Net earned premiums and other considerations	\$ 2,371,605	\$ 2,220,145
Segment net income	\$ 198,893	\$ 133,147
Equity(3)	\$ 1,564,795	\$ 1,576,176

- (1) Gross written premium does not necessarily translate to an equal amount of subsequent net earned premiums since Assurant Solutions reinsures a portion of its premiums to insurance subsidiaries of its clients.
- (2) Extended service contracts include warranty contracts for products such as personal computers, consumer electronics and appliances.
- (3) Equity excludes accumulated other comprehensive income.

Products and Services

Assurant Solutions targets growth in three key product areas: domestic extended service contracts (ESC) and warranties; preneed life insurance sales; and international credit and ESC. In addition, we offer debt protection services through financial institutions.

ESC and Warranties: Through partnerships with leading retailers, we underwrite and provide administrative services for extended service contracts and warranties. These contracts provide consumers with coverage on appliances, consumer electronics, personal computers, cellular phones, automobiles and recreational vehicles protecting them from losses incurred due to product failures. We pay the cost of repairing or replacing customers' property in the event of damages due to mechanical breakdown, accidental damage, and casualty losses such as theft, fire, and water damage. Our strategy is to seamlessly provide a total solution to our clients that addresses all aspects of the warranty or extended service contract, including program design and marketing strategy. We provide technologically advanced administration, claims handling and customer service. We believe that we maintain a differentiated position in the marketplace as a provider of both the required administrative infrastructure and insurance underwriting capabilities.

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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 generally structured as whole life insurance policies in the United States and as annuity products in Canada.

Credit Insurance: Our credit insurance programs provide our clients customers with products that offer protection from life events and uncertainties that arise in purchasing and borrowing transactions thereby

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providing the consumer peace of mind. Credit insurance programs generally offer consumers a convenient option to protect a credit card balance or installment loan 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.

Debt Protection/Debt Deferment: Debt protection products are offered by our clients to their customers and are typically underwritten by the institution that issues the credit card. Due to regulatory changes and the resulting shift to debt deferment products by financial institutions, we have seen a reduction in domestic written premium generated in the credit insurance market. Consequently, the largest credit card issuing institutions have migrated from credit insurance towards debt protection programs. We have worked with our clients to offer alternative products such as debt deferment and protection services. Our debt protection programs generate fee income.

Marketing and Distribution

Assurant Solutions focuses on establishing strong, long-term distribution relationships with market leaders. We partner with six of the top ten largest credit companies to market our credit insurance and debt protection programs and five of the ten largest consumer electronics and appliance retailers (based on combined product sales) to market our warranty and extended service contracts.

Several of our distribution agreements are exclusive. Typically these agreements have terms of one to five years and allow us to integrate our administrative systems with those of our clients. This integration enables us to exchange information in an almost real-time environment.

In addition to our domestic market, we operate in Canada, the United Kingdom, Denmark, Germany, Spain, Italy, Argentina, Brazil, Mexico and Puerto Rico. In these markets, we primarily sell extended service contracts and credit insurance products through agreements with financial institutions, retailers and cellular-phone companies. Although there has been shrinkage in the domestic credit insurance market, the international markets are experiencing growth in the credit insurance business. Expertise gained in the domestic credit insurance market has enabled us to extend our administrative infrastructure internationally. Systems, training, computer hardware and the overall market development approach are customized to fit the particular needs of each targeted international market.

Our pre-funded funeral programs are marketed in the United States and Canada. In November 2005 we sold our US independent distribution business to Forethought Life Insurance Company (Forethought) to allow us to focus on our exclusive distribution partnership with Service Corporation International (SCI) and continue to develop our other growth area; independent business in Canada. We are the sole provider through September 30, 2010 of preneed life insurance for SCI, the largest funeral provider in the US based on total revenue. In Canada, we market our preneed programs through independent and corporate funeral homes and selected third-party general agencies. In late 2006 we entered into an agreement to acquire 100% of the outstanding stock of Mayflower National Life Insurance Company (Mayflower) from SCI and extend our exclusive marketing agreement with SCI to September 30, 2013. The transaction is expected to close in 2007. Mayflower will add approximately \$50,000 in annual net earned premiums.

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 this commission arrangement, as permitted by law, compensation to the financial institutions and other clients is predicated upon the actual losses incurred compared to premiums earned after a specific net allowance to us. We believe that this aligns our clients' interests

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with ours and helps us to better manage risk exposure. A distinct characteristic of our credit insurance program is that the majority of these products have relatively low exposures per incident. This is because policy size is equal to the

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size of the installment loan or credit card balance. Thus, catastrophic loss severity for most of this business is low relative to insurance companies writing more traditional lines of property insurance.

Our claims processing is automated and combines the efficiency of centralized claims handling, customer service centers and the flexibility of field representatives. This flexibility adds savings and efficiencies to the claims-handling process. Our claims department also provides continuous automated feedback to the underwriting team to help with risk assessment and pricing.

We have extensive knowledge-based experience and risk management expertise in the extended service contract and warranty areas and utilize an integrated model to address the complexities of pricing, marketing, training, risk retention and client service.

Profitability generated through our preneed life insurance programs is 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 those spreads, we monitor the movement in new money yields and evaluate monthly our actual net new achievable yields among other techniques.

Assurant Specialty Property

	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005
<i>Net Earned Premiums and Other Considerations by Major Product Grouping:</i>		
Homeowners (Creditor Placed and Voluntary)	\$ 753,169	\$ 443,526
Manufactured Housing (Creditor Placed and Voluntary)	214,461	217,424
Other (1)	240,681	197,898
Total	\$ 1,208,311	\$ 858,848
Segment Net Income	\$ 241,121	\$ 143,227
Loss Ratio (2)	33.8%	37.0%
Expense Ratio (3)	44.0%	47.2%
Combined Ratio (4)	76.5%	82.6%
Equity (5)	\$ 752,913	\$ 524,403

- (1) This includes flood, renters, agricultural, specialty auto and other insurance products.
- (2) The loss ratio is equal to policyholder benefits divided by net earned premiums and other considerations.
- (3) The expense ratio is equal to selling, underwriting and general expenses divided by net earned premiums and other considerations and fees and other income.
- (4) The combined ratio is equal to total benefits, losses and expenses divided by net earned premiums and other considerations and fees and other income.
- (5) Equity excludes accumulated other comprehensive income.

Products and Services

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Assurant Specialty Property is pursuing long-term profitable growth in creditor-placed homeowners insurance and seeks to extend this model into two emerging markets, creditor-placed automobile and renters liability and property.

Creditor-placed homeowners insurance: The largest product line within Assurant Specialty Property is homeowners insurance consisting principally of fire and dwelling hazard insurance offered primarily through our creditor-placed programs. The creditor-placed program provides collateral protection to our mortgage lender clients in the event that a homeowner fails to purchase or renew homeowners insurance on a mortgaged dwelling.

We use a proprietary insurance tracking administration system to continuously monitor a client's mortgage portfolio to verify the existence of insurance on each mortgaged property. In the event that a mortgagee is not

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maintaining adequate insurance coverage, they will be notified and, if the situation continues, we will issue an insurance policy on the property on behalf of the creditor. This process works through the integration of our proprietary loan tracking system with the back offices of our clients.

The creditor-placed programs are administered separately for homeowner mortgages and manufactured housing mortgages. Our hazard products can also be sold on a voluntary basis. In addition, we provide fee-based administration services for some of the largest mortgage lenders and servicers, manufactured housing lenders, dealers and vertically integrated builders and equipment leasing institutions in the United States. Manufactured housing retailers use our proprietary premium rating technology which allows them to sell property coverages at the point of sale.

We believe this proven business model will allow us to continue our growth due to seamless integration with our clients and the inherent efficiencies of this integration. Additionally, we are optimistic about the opportunities before us to expand this business model with the addition of new clients, new products for existing clients, and the acquisition of new business such as the May 2006 acquisition of the creditor-placed business of Safeco Financial Institution Solutions, Inc. (SFIS). The acquisition of SFIS raised our market share of outsourced creditor-placed business to approximately 70%.

Creditor-Placed Auto and Renters: We have developed products using our creditor-placed business model to meet similar needs in adjacent and emerging markets, such as the creditor-placed automobile and creditor-placed rental markets. Both of these markets have been expanding in recent years. The creditor-placed automobile market has benefited from regulatory improvements made by the National Association of Insurance Commissioners. The creditor-placed rental market continues to expand as more property management companies mandate tenant liability coverage.

As a result of our efficiency in handling certain back-office functions, the vast majority of our mortgage lender and servicing clients outsource their insurance processing to us. We also act as an administrator for the Federal Government under the voluntary National Flood Insurance Program for which we earn an expense reimbursement for collecting premiums and processing claims. This is a public flood insurance program and is restricted as to rates, underwriting, coverages and claims management procedures. We do not assume any underwriting risk with respect to this program; however, we underwrite a smaller separate voluntary flood insurance program.

Marketing and Distribution

Our marketing strategy is to establish relationships with institutions that are leaders in their chosen markets. Our creditor-placed homeowners program is marketed through financial institutions and other mortgage lenders. Our clients in this program consist of 17 of the top 25 prime mortgage lenders/servicers and 14 of the top 25 sub-prime mortgage lenders/servicers.

We offer our manufactured housing insurance programs primarily through three channels; manufactured housing lenders, manufactured housing retailers and independent specialty agents. The independent specialty agents distribute our products to individuals subsequent to new home purchases.

Underwriting and Risk Management

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We maintain a disciplined approach to the management of our product lines. Our creditor-placed homeowners insurance program is unique in that it is not underwritten on an individual basis. Contracts with our clients require us to automatically issue these policies, after notice, when a homeowners policy lapses or is terminated. These products are priced after factoring in this inherent underwriting risk.

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Individual Medical: Our medical insurance products are sold to individuals, primarily between the ages of 18 and 64 years, and their families who do not have employer-sponsored coverage. We emphasize the sale of individual products through associations and trusts that act as the master policyholder for such products. Products marketed and sold through associations and trusts offer flexibility in pricing and product design which increase our ability to respond to market changes.

Substantially all of the individual health insurance products we sell are Preferred Provider Organization (PPO) plans, which offer members the ability to select from a wide range of health care providers. Coverage is typically available with a variety of co-payment or deductible and coinsurance options, with the total benefit for

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covered services limited by certain policy maximums. Members can also add an HSA (Health Savings Account) option with their high deductible health plan. We offer extensive HSA training to our independent agents and offer internet-based HSA tools making it easier for our customers to integrate their HSA into the plan of their choice and better manage their health care spending. These products are individually underwritten, taking into account the member's medical history and other factors. The remaining products we sell are indemnity, or fee-for-service plans. Indemnity plans offer a member the ability to select any health care provider for covered services.

Short-term Medical Insurance and Student Health Insurance: The short-term medical insurance product is designed for individuals who are between jobs or seeking interim coverage before their major medical coverage becomes effective. Short-term medical insurance products are generally sold to individuals in order to fill gaps in coverage of twelve months or less. Student health coverage plans are medical insurance plans sold to full-time college students who are not covered by their parents' health insurance, are no longer eligible for dependant coverage, or are seeking a more comprehensive alternative to a college-sponsored plan.

Small Group Medical: Our group medical insurance sold to small employers focuses primarily on companies with two to fifty employees, although larger employer coverage is available. As of December 31, 2006, our average group size was approximately five employees. In the case of our small employer group health insurance, we underwrite the entire group and examine the medical risk factors of the individual groups for pricing purposes only. Substantially all of the small employer health insurance products that we sold in 2006 and 2005 were PPO products. We also offer HSA and HRA (Health Reimbursement Account) options and a variety of ancillary products to meet the demands of small employers for life insurance, short-term disability insurance and dental insurance.

Marketing and Distribution

Breadth and depth of distribution is a key competitive advantage for Assurant Health. Our health insurance products are principally marketed through an extensive network of independent agents by our distributors. We also market our products to individuals through a variety of exclusive and non-exclusive national account relationships and direct distribution channels. In addition, we market our products through NorthStar Marketing, a wholly owned affiliate that proactively seeks business directly from independent agents. Since 2000, we have had an exclusive national marketing agreement with a major mutual insurance company, pursuant to which their captive agents market our individual health products. Captive agents are representatives of a single insurer or group of insurers who are obligated to submit business only to that insurer, or at a minimum, give that insurer first refusal rights on a sale. The term of this agreement will expire in June 2008, but may be extended if agreed to by both parties. We also have a solid relationship with a well-known association. Through our agreement with this well-known association's administrator, we provide many of our individual health insurance products. The term of the agreement with this administrator will expire in September 2008, but will be automatically extended for an additional two-year term unless prior notice of a party's intent to terminate is given to the other party. We also have a long-term relationship with a national marketing organization with more than 50 offices. We, and our direct writing agents, also sell short-term medical insurance plans through the internet.

In 2006, we launched Advantage Agent, an array of new products, tools and capabilities designed to make it easy for agents to do business with Assurant Health. Along with the introduction of a new individual medical portfolio designed to meet a broad spectrum of customer needs, Advantage Agent also includes a new on-line program called EASE (Electronic Agent Sales Experience) that shortens approval periods and makes the application process easier for applicants and agents while maintaining the integrity of our disciplined risk management requirements.

Underwriting and Risk Management

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Our underwriting and risk management capabilities include pricing discipline, policy underwriting and renewal optimization, development and retention of provider networks, product development and claims

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processing. In establishing premium rates for our health care plans, we use underwriting criteria based upon our accumulated actuarial data, with adjustments for factors such as claims experience and member demographics to evaluate anticipated health care costs. Our pricing considers the expected frequency and severity of claims and the costs of providing the necessary coverage, including the cost of administering policy benefits, sales and other administrative costs.

We also utilize a broad range of focused traditional cost containment and care management processes across our various product lines to manage risk and to lower costs. These include case management, disease management and pharmacy benefits management programs. We retain provider networks through a variety of relationships. These relationships generally include leased networks, such as Private Health Care Systems, Inc. (PHCS), which contract directly with individual health care providers. Assurant Health was a co-founder of PHCS. Although we sold our equity interest in PHCS during 2006, we continue to have access to the PHCS network. Pharmacy benefits management is provided by Medco Health Solutions, formerly known as Merck-Medco. Medco Health Solutions has established itself as a leader in its industry with almost 60,000 participating retail pharmacies nationwide and its extensive mail-order service. Through Medco Health Solutions' advanced technology platforms, Assurant Health is able to access information about customer utilization patterns on a timelier basis to improve its risk management capabilities. In addition to the technology-based advantages, Medco Health Solutions allows us to purchase our pharmacy benefits at competitive prices. Our agreement with Medco Health Solutions expires June 30, 2007 and we are currently in negotiations to renew this contract. We also utilize co-payments and deductibles to reduce prescription drug costs.

Assurant Employee Benefits

	For the Year Ended	For the Year Ended
	December 31, 2006	December 31, 2005
	_____	_____
<i>Net Earned Premiums and Other Considerations:</i>		
Group Dental	\$ 428,218	\$ 502,789
Group Disability Single Premiums for Closed Blocks (1)	46,313	26,700
All Other Group Disability	480,924	489,840
Group Life	224,447	258,509
	_____	_____
Total	\$ 1,179,902	\$ 1,277,838
	_____	_____
Segment Net Income	\$ 83,603	\$ 68,366
Loss ratio (2)	70.4%	73.3%
Expense ratio (3)	33.7%	32.1%
Equity (4)	\$ 615,612	\$ 610,248
	_____	_____

(1) This represents single premium on closed blocks of group disability business.

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

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

(4) Equity excludes accumulated other comprehensive income.

Products and Services

We focus our group business around the needs of the small employer, which we define as businesses with fewer than 500 employees. We believe that our core capabilities around small group risk selection, administrative systems that can efficiently handle thousands of cases, and our

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strong relationships with brokers who work primarily with small businesses gives us a competitive advantage over other companies.

We offer a full range of group disability, dental, life and voluntary products as well as individual dental products. The group products are offered with funding option choices ranging from fully employer paid to fully employee paid (voluntary).

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Group Disability: Group disability insurance provides partial replacement of lost earnings for insured employees who become disabled as defined by their plan provisions. Our group disability products include both short-and long-term disability coverage options. We also reinsure disability policies written by other carriers through our subsidiary Disability Reinsurance Management Services, Inc. (DRMS).

Group long-term disability insurance provides income protection for extended work absences due to sickness or injury. Most policies commence benefits following 90- or 180-day waiting periods, with benefits limited to specified maximums as a percentage of income. Group short-term disability insures temporary loss of i