ASSURANT INC
Form 10-K
February 25, 2010
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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, 2009

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	**39-1126612**
(State or Other Jurisdiction	**(I.R.S. Employer**
of Incorporation or Organization)	**Identification No.)**

One Chase Manhattan Plaza, 41st Floor	
New York, New York	**10005**
(Address of Principal Executive Offices)	**(Zip Code)**

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 þ 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. ¨

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):

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant was $2,826 million at June 30, 2009 based on the closing sale price of $24.09 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 16, 2010 was 116,485,888.

Documents Incorporated by Reference

Certain information contained in the definitive proxy statement for the annual meeting of stockholders to be held on May 13, 2010 (2010 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, 2009

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Amounts are presented in United States of America (U.S.) dollars and all amounts are in thousands, except number of shares, per share amounts, registered holders, number of employees, beneficial owners 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 in the section below entitled Critical Factors Affecting Results, the following risk factors could cause our actual results to differ materially from those currently estimated by management: (i) general global economic, financial market and political conditions (including difficult conditions in financial, capital and credit markets, the global economic slowdown, fluctuations in interest rates, mortgage rates, monetary policies, unemployment and inflationary pressure); (ii) failure to maintain significant client relationships, distribution sources and contractual arrangements; (iii) failure to attract and retain sales representatives; (iv) deterioration in the Company s market capitalization compared to its book value that could impair the Company s goodwill; (v) negative impact on our business and negative publicity due to unfavorable outcomes in litigation and/or regulatory investigations; (vi) current or new laws and regulations, including proposed legislation relating to health care reform, that could increase our costs and/or decrease our revenues; (vii) inadequacy of reserves established for future claims losses; (viii) failure to predict or manage benefits, claims and other costs; (ix) losses due to natural and man-made catastrophes; (x) increases or decreases in tax valuation allowances; (xi) fluctuations in exchange rates and other risks related to our international operations; (xii) unavailability, inadequacy and unaffordable pricing of reinsurance coverage; (xiii) diminished value of invested assets in our investment portfolio (due to, among other things, the recent volatility in financial markets, the global economic slowdown, credit and liquidity risk, other than temporary impairments, and inability to assume an appropriate overall risk level); (xiv) inability of reinsurers to meet their obligations; (xv) insolvency of third parties to whom we have sold or may sell businesses through reinsurance or modified co-insurance; (xvi) credit risk of some of our agents in Assurant Specialty Property and Assurant Solutions; (xvii) a decline in our credit or financial strength ratings (including the risk of ratings downgrades in the insurance industry); (xviii) failure to effectively maintain and modernize our information systems; (xix) failure to protect client information and privacy; (xx) failure to find and integrate suitable acquisitions and new insurance ventures; (xxi) inability of our subsidiaries to pay sufficient dividends; (xxii) failure to provide for succession of senior management and key executives; and (xxiii) significant competitive pressures in our businesses and cyclicality of the insurance industry. These risk factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. For a more detailed discussion of the risk factors that could affect our actual results, please refer to the Critical Factors Affecting Results in Item 7 and Risk Factors in Item 1A of this Form 10-K.

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PART I

Item 1. *Business*

Legal Organization

Assurant, Inc. (Assurant or the Company) 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, 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.

Business Overview

Assurant is a provider of specialized insurance products and related services in North America and select worldwide markets. Our four operating segments Assurant Solutions, Assurant Specialty Property, Assurant Health, and Assurant Employee Benefits have partnered with clients who are leaders in their industries and have built leadership positions in a number of specialty insurance market segments in the United States of America (U.S.) and selected international markets. These segments provide debt protection administration; credit insurance; warranties and service contracts; pre-funded funeral insurance; creditor placed homeowners insurance; 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 and selected international markets. To achieve this mission, we focus on the following areas:

- Building and maintaining a portfolio of diverse, specialty insurance businesses
- Leveraging a set of core capabilities for competitive advantage *managing risk; managing relationships with large distribution partners; and integrating complex administrative systems*
- Managing targeted growth initiatives
- Identifying and adapting to evolving market needs

Building and maintaining a portfolio of diverse, specialty insurance businesses We currently are made up of four operating segments, Assurant Solutions, Assurant Specialty Property, Assurant Health and Assurant Employee Benefits, each focused on serving specific sectors of the insurance market. We 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 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 in North America as well as selected international markets. These markets are generally complex, have a relatively limited number of competitors and, we believe, offer long-term growth opportunities. In these markets, we apply our core capabilities to create a 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 returns that are in the top quartile of the insurance industry 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 businesses. Our acquisition process is designed to ensure that any new business will support our business model. We establish performance goals in our short-term incentive compensation plan for senior management based on growth in targeted areas.

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Identifying and adapting to evolving market needs Assurant s businesses adapt to changing market conditions by tailoring product and service offerings to specific client and customer needs. By understanding the dynamics of 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.

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 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 varies by product and market. We compete for customers and distributors with insurance companies and other financial services companies in our various businesses.

The Assurant Solutions and Assurant Specialty Property segments competitors include insurance companies, financial institutions, and, in the case of preneed life insurance, regional insurers. 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 write 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 23 to the Consolidated Financial Statements included elsewhere in this report.

Assurant Solutions

	For the Years Ended	
	December 31, 2009	**December 31, 2008**
Gross written premiums for selected product groupings (1):		
Domestic credit insurance	$ 526,532	$ 604,101
International credit insurance	843,225	827,457
Domestic extended service contracts and warranties (2)	1,012,670	1,530,284
International extended service contracts and warranties (2)	462,964	477,652
Preneed life insurance (face sales)	512,366	445,313
Net earned premiums and other considerations (3)	$ 2,671,041	$ 2,813,407
Segment net income	$ 120,052	$ 112,183
Equity (4)	$ 1,653,817	$ 1,540,066

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

Effective January 1, 2009, new preneed life insurance policies in which death benefit adjustments are determined at the discretion of the Company are accounted for as universal life contracts. For contracts sold prior to January 1, 2009, these preneed life insurance policies were accounted for and will continue to be accounted for under the limited pay insurance guidance. In accordance with the universal life insurance guidance, income earned on new preneed life insurance policies is presented within policy fee income net of policyholder benefits. Under the limited pay insurance guidance, the consideration received on preneed policies is presented separately as net earned premiums, with policyholder benefits expense being shown

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separately. The change from reporting certain preneed life insurance policies in accordance with the universal life insurance guidance versus the limited pay insurance guidance is not material to the statement of operations or balance sheet.

(4) Equity excludes accumulated other comprehensive income (loss).

Products and Services

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

ESC and Warranties: Through partnerships with leading retailers and original equipment manufacturers, 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 certain covered losses. 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 service 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.

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.

Effective January 1, 2009, new preneed life insurance policies in which death benefit adjustments are determined at the discretion of the Company are accounted for as universal life contracts under the universal life insurance guidance provided by the Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) Topic 944, *Financial Services Insurance.* Preneed policies sold prior to January 1, 2009, were accounted for and will continue to be accounted for under the limited pay insurance guidance contained within ASC Topic 944. The difference in reporting these policies in accordance with the universal life insurance guidance versus the limited pay insurance guidance is not material to the statement of operations or balance sheet.

Under the universal life insurance guidance, income earned on new preneed life insurance policies is presented within policy fee income net of policyholder benefits. Under the limited pay insurance guidance, the consideration received on preneed policies is presented separately as net earned premiums, with policyholder benefits expense being shown separately. As previously noted, the effects on net income for the twelve months ended December 31, 2009 were not material.

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 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. For more information see Risk Factors Risks Related to Our Industry.

Regulatory changes in the U.S. have caused a shift to debt deferment products by financial institutions. The largest credit card issuing institutions and lenders have migrated from credit insurance towards debt protection programs. Consequently, we have seen a reduction in domestic gross written premiums generated in the credit insurance market which we expect to continue.

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Debt Protection/Debt Deferment: Debt protection/debt deferment is coverage offered by lenders in conjunction with credit card accounts, installment loans and lines of credit. It waives or defers all or a portion of the monthly payments, monthly interest, or the actual debt for the account holder for a covered event such as death, disability, unemployment and family leave. It is similar to credit, life, disability and involuntary unemployment insurance but does not require an insurance company to underwrite the program.

We earn fee income by providing administrative services such as debt deferment and protection service programs for our clients.

Marketing and Distribution

Assurant Solutions focuses on establishing strong, long-term relationships with leading distributors of its products and services. We partner with seven of the top ten largest credit card companies to market our credit insurance and their debt protection programs, four of the ten largest consumer electronics and appliance retailers (based on combined product sales) and original equipment manufacturers to market our ESC and warranty products.

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.

In addition to the domestic market, we operate in Canada, the United Kingdom (U.K.), Argentina, Brazil, Puerto Rico, Chile, Germany, Spain, Italy, Mexico and China. In these markets, we primarily sell ESC and credit insurance products through agreements with financial institutions, retailers and wireless service providers. Although there has been contraction in the domestic credit insurance market, several 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 our overall market development approach are customized to fit the particular needs of each targeted international market.

During 2009, Assurant Solutions transferred new contracts sold in Denmark to a new underwriter (IF Group) and entered into a reinsurance agreement with that underwriter effective April 1, 2009 for the legacy business. This transfer was related to our decision in late 2008 to exit the Denmark market. Administration of all business previously written in Denmark is now provided by a third party administrator, and we are no longer writing business.

On January 9, 2009, we entered into a strategic relationship to market, administer and underwrite ESC products to Whirlpool Corporation (Whirlpool) appliance customers in the U.S. and Canada. Whirlpool is a leading manufacturer and marketer of major home appliances. The Company paid $25,000 in cash to acquire this business.

On September 26, 2008, the Company acquired the Warranty Management Group business from GE Consumer & Industrial, a unit of General Electric Co. (GE). The Company paid GE $140,000 in cash for the sale, transfer and conveyance of certain assets and assumed certain liabilities. As part of the acquisition, the Company entered into a new 10-year agreement to market extended warranties and service contracts on GE-branded major appliances in the U.S.

In a separate transaction, GE paid the Company $115,000 in cash and the Company eliminated deferred acquisition costs (DAC) by $106,000 and a receivable from GE of $9,000 in connection with the termination of the existing strategic alliance. Under the pre-existing relationship, the Company sold extended warranties directly to GE appliance purchasers and through leading retailers and paid commissions to GE. After the acquisition, the Company assumed full responsibility for operating the extended warranty business it previously co-managed and shared with GE.

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On October 1, 2008, the Company completed the acquisition of Signal Holdings LLC (Signal), a leading provider of wireless handset protection programs and repair services. The Company paid $257,400 in cash for the acquisition, transfer and conveyance of certain assets and assumed certain liabilities. Signal services extended service contracts for 4.2 million wireless subscribers.

Our preneed life insurance policies are marketed in the U.S. and Canada. We have an exclusive distribution partnership with Service Corporation International (SCI), the largest provider of deathcare products and services in North America. We also continue to develop our other growth area: independent business in Canada. We are the sole provider of preneed life insurance for SCI through September 30, 2013. In Canada, we market our preneed life insurance programs through independent and corporate funeral homes and selected third-party general agents. On July 1, 2007, we acquired 100% of the outstanding stock of Mayflower National Life Insurance Company (Mayflower) from SCI. We subsequently merged Mayflower, a leading provider of preneed insurance products and services, into one of our existing preneed life insurers, American Memorial Life Insurance Company, where we continue to write all new preneed life insurance business.

On July 12, 2007, we acquired 100% of the outstanding stock of Swansure Group (Swansure), a privately held company in the U.K. Swansure owns D&D Homecare Limited and Adminicle Limited. D&D Homecare Limited designs and distributes general insurance products, including mortgage payment protection and buildings and contents insurance. Adminicle Limited provides a range of insurance administration and outsourcing services. Assurant Solutions has decided to terminate the non-Assurant business performed by Adminicle and close the Adminicle facility in Cirencestor. This will be completed in 2010.

In addition, on October 1, 2007, we acquired 100% of the outstanding stock of Centrepoint Insurance Services Limited (Centrepoint), a privately held company in the U.K. Centrepoint is a leading insurance broker of building and contents and mortgage payment protection insurance.

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 align our clients interests with ours and help us to better manage risk exposure.

Our extensive experience and risk management expertise in the credit, ESC, and warranty areas, along with our sophisticated claims handling capabilities allow us to address the complexities of pricing, marketing, training, risk retention and client service that are inherent in our products.

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 yield.

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Assurant Specialty Property

	For the Years Ended	
	December 31, 2009	**December 31, 2008**
Net earned premiums and other considerations by major product grouping:		
Homeowners (creditor-placed and voluntary)	$ 1,369,031	$ 1,471,012
Manufactured housing (creditor-placed and voluntary)	219,960	225,209
Other (1)	358,538	352,017
Total	$ 1,947,529	$ 2,048,238
Segment net income	$ 405,997	$ 405,203
Loss ratio (2)	34.1%	38.3%
Expense ratio (3)	41.5%	39.0%
Combined ratio (4)	74.7%	76.4%
Equity (5)	$ 1,184,798	$ 1,276,603

(1) This primarily includes flood, miscellaneous specialty property and renters 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. (Fees and other income is not included in the above table)
(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. (Fees and other income is not included in the above table)
(5) Equity excludes accumulated other comprehensive income (loss).

Products and Services

Assurant Specialty Property s business strategy is to pursue long-term growth in creditor-placed homeowners insurance and expand its strategy into other emerging markets with similar characteristics, such as creditor-placed automobile and renters insurance. Assurant Specialty Property also writes other specialty products.

Creditor-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 creditor-placed programs. The creditor-placed program provides collateral protection to our mortgage lending and servicing clients in the event that a homeowner does not maintain insurance on a mortgaged dwelling. The majority of our mortgage lending and servicing clients outsource their insurance processing to us. As part of our creditor-placed homeowners program we provide to some of our clients on properties that have been foreclosed and are being managed by our clients. This type of insurance is called Real Estate Owned (REO) insurance. This market experienced significant increases in recent years as a result of the housing crisis, but is now moderating.

We use a proprietary insurance-tracking administration system linked with the administrative systems of our clients to continuously monitor the clients mortgage portfolios and verify the existence of insurance on each mortgaged property. We earn fee income for these administration services. In the event that mortgagees do not maintain adequate insurance coverage, we will issue an insurance certificate on the property on behalf of the creditor under a master policy.

Creditor-placed and voluntary manufactured housing insurance: The next largest product line within Assurant Specialty Property is manufactured housing insurance, offered on a creditor-placed and voluntary basis. Creditor-placed insurance is issued after an insurance tracking process similar to that described above. The tracking is performed by Assurant Specialty Property utilizing 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 coverages at the point of sale.

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Other insurance: We believe there are opportunities to apply our creditor-placed business model to other products and services. We have developed products in adjacent and emerging markets, such as the creditor-placed automobile and mandatory insurance rental markets. We also act as an administrator for the U.S. Government under the voluntary National Flood Insurance Program, for which we earn a fee for collecting premiums and processing claims. The business is 100% reinsured to the Federal Government and we do not assume any underwriting risk with respect to this program. Separately, we do underwrite a creditor-placed flood insurance program.

Marketing and Distribution

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

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. Renters insurance is distributed primarily through property management companies.

Underwriting and Risk Management

We maintain a disciplined approach to the management of our product lines. Our creditor-placed homeowners insurance program and certain of our manufactured home products are not underwritten on an individual policy basis. Contracts with our clients require us to automatically issue these policies when a borrower s insurance coverage is not maintained. These products are priced to factor in the lack of individual policy underwriting.

We monitor pricing adequacy based on a variety of factors and adjust pricing as required, subject to regulatory constraints. Since several of our product lines (e.g., homeowners, manufactured home, and other property policies) are exposed to catastrophic 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, 2009	**December 31, 2008**
Net earned premiums and other considerations:		
Individual markets:		
Individual medical	$ 1,270,198	$ 1,276,743
Short-term medical and student health	104,238	101,435
Subtotal	1,374,436	1,378,178
Small employer group medical	505,192	573,777

Total	$ 1,879,628	$ 1,951,955
Segment net (loss) income	$ (30,220)	$ 120,254
Loss ratio (1)	75.0%	64.5%
Expense ratio (2)	31.5%	30.4%
Combined ratio (3)	105.0%	93.6%
Equity (4)	$ 309,206	$ 337,475

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

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(2) The expense ratio is equal to selling, underwriting and general expenses divided by net earned premiums and other considerations and fees and other income. (Fees and other income is not included in the above table)
(3) The combined ratio is equal to total benefits, losses and expenses divided by net earned premiums and other considerations and fees and other income. (Fees and other income is not included in the above table)
(4) Equity excludes accumulated other comprehensive income (loss).

Product and Services

Assurant Health competes in the individual medical insurance market by offering medical insurance, short-term medical insurance and student medical plans to individuals and families. Our products are offered with different plan options to meet a broad range of customer needs and levels of affordability. Assurant Health also offers medical insurance to small employer groups.

Individual Medical: Our medical insurance products are sold to individuals, primarily between the ages of 18 and 64, 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 designated health care providers. Coverage is typically available with a variety of co-payment, deductible and coinsurance options, with the total benefit for covered services limited by certain policy maximums. These products are individually underwritten, taking into account the applicant s medical history and other factors. The remaining products we sell are indemnity, or fee-for-service, plans which allow members to select any health care provider for covered services.

Short-term Medical and Student Health: Our short-term medical insurance product is designed for individuals who are between jobs or seeking interim coverage. Coverage is generally provided for periods 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 or are seeking a more comprehensive alternative to a college-sponsored plan.

Small Employer Group Medical: Our group medical insurance is primarily sold to small companies with two to fifty employees, although larger employer coverage is available. As of December 31, 2009, our average group size was approximately five employees. Substantially all of the small employer health insurance products that we sell are PPO products. We also offer HSA and Health Reimbursement Account (HRA) options and a variety of ancillary products to meet the needs of small employers for life insurance, short-term disability insurance and dental insurance.

Marketing and Distribution

Our health insurance products are principally marketed through a network of independent agents. We also market 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 seeks business directly from independent agents. Since 2000, we have had an exclusive national marketing agreement with a major mutual insurance company whose captive agents market our individual health products. This agreement will expire in September 2018 and allows either company to exit the agreement after September 2013. We also provide many of our products through a well-known association s administrator through an agreement that automatically renewed for a two-year term in September 2008. We also have a long-term relationship with a national marketing organization with more than 50 offices. We also sell short-term medical insurance plans through the internet and market directly to consumers.

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Underwriting and Risk Management

Premium rates for our health care plans are based upon our accumulated actuarial data and reflect a variety of factors including claims experience and member demographics. Prices of individual health insurance coverage also reflect our evaluation of the health conditions of applicants for coverage. Our pricing considers the expected frequency and severity of claims and the costs of providing insurance coverage, including the cost of administering policy benefits, sales and other administrative costs.

We utilize a broad range of 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. Pharmacy benefits management is provided by Medco Health Solutions (Medco). Through Medco s advanced technology platforms, Assurant Health is able to access information about customer utilization patterns on a timely basis to improve its risk management capabilities. In addition, Medco allows us to purchase our pharmacy benefits at competitive prices. Our agreement with Medco expires June 30, 2010, but will be automatically extended for additional one-year terms unless 6 months prior notice of a party s intent to terminate is given to the other party. Medco has not provided any notice of termination.

During 2009, Assurant Health experienced increased policyholder utilization of medical services which led to a deterioration in operating results. Additionally, pending healthcare reform in the U.S. Congress creates uncertainty for the future of this business. Please see Management s Discussion and Analysis Assurant Health and Risk Factors Risks Related to Our Industry Changes in regulation may reduce our profitability and limit our growth for further details.

Assurant Employee Benefits

	For the Years Ended	
	December 31, 2009	**December 31, 2008**
Net Earned Premiums and Other Considerations:		
Group dental	$ 425,288	$ 435,115
Group disability single premiums for closed blocks (1)		11,447
All other group disability	434,381	459,208
Group life	192,468	205,978
Total	$	