

ASSURANT INC  
Form 424B3  
May 14, 2004

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Filed pursuant to Rule 424(B)(3)  
Registration #333-115157

**PROSPECTUS**

**\$975,000,000**

**Assurant, Inc.**

**OFFER TO EXCHANGE UP TO \$500,000,000**

**5.625% SENIOR NOTES DUE 2014 FOR ANY AND ALL OUTSTANDING  
5.625% SENIOR NOTES DUE 2014**

**OFFER TO EXCHANGE UP TO \$475,000,000**

**6.750% SENIOR NOTES DUE 2034 FOR ANY AND ALL OUTSTANDING  
6.750% SENIOR NOTES DUE 2034**

We are offering to exchange up to \$500,000,000 of our new 5.625% Senior Notes due 2014, which are referred to as the 2014 exchange notes, for up to \$500,000,000 of our existing 5.625% Senior Notes due 2014, which are referred to as the 2014 restricted notes, and up to \$475,000,000 of our new 6.750% Senior Notes due 2034, which are referred to as the 2034 exchange notes, for up to \$475,000,000 of our existing 6.750% Senior Notes due 2034, which are referred to as the 2034 restricted notes. The 2014 exchange notes and the 2034 exchange notes are referred to collectively as the exchange notes, and the 2014 restricted notes and the 2034 restricted notes are referred to collectively as the restricted notes. We refer to the restricted notes and exchange notes collectively as the notes. The terms of each series of exchange notes are identical to the terms of the corresponding series of the restricted notes, except that the exchange notes have been registered under the Securities Act of 1933 and the transfer restrictions and registration rights relating to the restricted notes do not apply to the exchange notes.

To exchange your restricted notes for exchange notes:

you are required to make the representations described on page 185 to us and

you must complete and send, or otherwise be bound by, the letter of transmittal that accompanies this prospectus to the exchange agent, SunTrust Bank, by 5:00 p.m., New York City time, on June 14, 2004.

You should read the section called The Exchange Offer for further information on how to exchange your restricted notes for exchange notes.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act of 1933. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for restricted notes where such restricted notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, starting on the expiration date (as defined herein) and ending on the close of business 180 days after the expiration date, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

**YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS ON PAGE 16 OF THIS PROSPECTUS BEFORE PARTICIPATING IN THE EXCHANGE OFFER.**

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES TO BE ISSUED IN THE EXCHANGE OFFER OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

May 13, 2004

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**You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with information that is different from that contained in this prospectus. We are offering to sell and seeking offers to buy these notes only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the notes.**

In this prospectus references to the Company, Assurant, we, us or our refer to Assurant, Inc., a Delaware corporation, and its subsidiaries and its predecessor, Fortis, Inc., a Nevada corporation. Unless the context otherwise requires, references to (1) Assurant, Inc. refer solely to Assurant, Inc., a Delaware corporation, and not to any of its subsidiaries, (2) Fortis, Inc. refer solely to Fortis, Inc., a Nevada corporation, and not to any of its subsidiaries, and (3) Fortis refer collectively to 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, the ultimate parent companies of Fortis Insurance N.V., our largest stockholder. Unless we specifically state otherwise or the context otherwise requires, all references to shares outstanding after our initial public offering and percentage ownership after our initial public offering, reflect (1) changes that took place in connection with the merger for the purpose of redomestication that occurred on February 4, 2004, including the exchange in the merger of each share of Class A Common Stock of Fortis, Inc. for 10.75882039 shares of Common Stock of Assurant, Inc., (2) the automatic conversion of the shares of Class B Common Stock and Class C Common Stock issued in the merger in accordance with their terms simultaneously with the closing of our initial public offering, which occurred on February 10, 2004, into an aggregate of 25,841,418 shares of Common Stock of Assurant, Inc. for all of the outstanding shares of Class B Common Stock and Class C Common Stock based on the public offering price of our common stock, (3) the issuance by us of 32,976,854 shares of Common Stock of Assurant, Inc. to Fortis Insurance N.V. simultaneously with the closing of our initial public offering in exchange for the \$725.5 million capital contribution referred to under Corporate Structure and Reorganization based on the public offering price of our common stock, and (4) the issuance by us of an aggregate of 68,976 shares of Common Stock of Assurant, Inc. to certain of our officers pursuant to stock grants made on the closing of our initial public offering and to certain of our directors

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pursuant to stock grants made on February 4, 2004. For your convenience, we have provided a glossary, beginning on page G-1, of selected insurance and reinsurance terms.

Neither the Securities and Exchange Commission, any state securities commission nor any other regulatory authority, has approved or disapproved the notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this prospectus as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to exchange the notes under applicable legal investment or similar laws or regulations.

This prospectus contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to us.

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**SUMMARY**

*This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that may be important to you. Although this summary highlights important information about us and what we believe to be the key aspects of this offering, you should read this summary together with the more detailed information and our financial statements and the notes to those financial statements appearing elsewhere in this prospectus. You should read this entire prospectus carefully, including the Risk Factors and Forward-Looking Statements sections before making an investment decision.*

**OUR COMPANY**

**Overview**

We pursue a differentiated strategy of building leading positions in specialized market segments for insurance products and related services in North America and selected other markets. We provide:

- creditor-placed homeowners insurance;
- manufactured housing homeowners insurance;
- debt protection administration;
- credit insurance;
- warranties and extended service contracts;
- individual health and small employer group health insurance;
- group dental insurance;
- group disability insurance;
- group life insurance; and
- pre-funded funeral insurance.

The markets we target are generally complex, have a relatively limited number of competitors and, we believe, offer attractive profit opportunities. In these markets, we leverage the experience of our management team and apply our expertise in risk management, underwriting and business-to-business management, as well as our technological capabilities in complex administration and systems. Through these activities, we seek to generate above-average 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. We have leadership positions or are aligned with clients who are leaders in creditor-placed homeowners insurance based on servicing volume, manufactured housing homeowners insurance based on number of homes built and debt protection administration based on credit card balances outstanding. We are also a leading writer of group dental plans sponsored by employers based on the number of subscribers and based on the number of master contracts in force and the largest writer of pre-funded funeral insurance measured by face amount of new policies sold. We believe that our leadership positions give us a sustainable competitive advantage in our chosen markets.

We currently have four decentralized operating business segments to ensure focus on critical activities close to our target markets and customers, while simultaneously providing centralized support in key functions. Our four operating business segments are: Assurant Solutions, Assurant Health, Assurant Employee Benefits and Assurant PreNeed. Each operating business segment has its own experienced management team with the autonomy to make decisions on key operating matters. These managers are eligible to receive incentive-based compensation based in part on operating business segment performance and in part on company-wide performance, thereby encouraging strong business performance

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and cooperation across all our businesses. At the operating business segment level, we stress disciplined underwriting, careful analysis and constant improvement and product redesign. At the corporate level, we provide support services, including investment, asset/liability matching and capital management, leadership development, information technology support and other administrative and finance functions, 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. Also, 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.

Our Assurant Solutions segment, which we began operating with the acquisition of American Security Group in 1980, provides specialty property solutions and consumer protection solutions. Specialty property



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solutions primarily include creditor-placed homeowners insurance (including tracking services) and manufactured housing homeowners insurance. Consumer protection solutions primarily include debt protection administration, credit insurance and warranties and extended service contracts. Our Assurant Health segment, which we began operating with the acquisition of Time Holdings, Inc. (now Fortis Insurance Company) in 1978, provides individual health insurance, including short-term and student medical insurance, and small employer group health insurance. Most of the health insurance products we sell are preferred provider organization (PPO) plans. In Assurant Employee Benefits, which we began operating with the acquisition of Mutual Benefit Life Group Division (now Fortis Benefits Insurance Company) in 1991, we provide employer- and employee-paid group dental insurance, as well as group disability insurance and group life insurance. In Assurant PreNeed, which we began operating with the acquisition of United Family Life Insurance Company in 1980, we provide pre-funded funeral insurance, which provides whole life insurance death benefits or annuity benefits used to fund costs incurred in connection with pre-arranged funerals.

We have created strong relationships with our distributors and clients in each of the niche markets we serve. In Assurant Solutions, we have strong long-term relationships in the United States with six of the ten largest mortgage lenders and servicers based on servicing volume, four of the seven largest manufactured housing builders based on number of homes built, four of the six largest general purpose credit card issuers based on credit card balances outstanding and five of the ten largest consumer electronics and appliances retailers based on combined product sales. In Assurant Health, we have exclusive distribution relationships with leading insurance companies based on total assets, through which we gain access to a broad distribution network and a significant number of potential customers, as well as relationships with independent brokers. In Assurant Employee Benefits, we distribute our products primarily through our sales representatives who work through independent employee benefits advisors, including brokers and other intermediaries. In Assurant PreNeed, we have an exclusive distribution relationship with Service Corporation International (SCI), the largest funeral provider in North America based on total revenues, as well as relationships with approximately 2,000 funeral homes.

For the fiscal year ended December 31, 2003, we generated total revenues of \$7,066 million and net income of \$186 million. For the year ended December 31, 2002, we generated total revenues of \$6,532 million, net income before cumulative effect of change in accounting principle of \$260 million and net loss of \$1,001 million (after giving effect to a cumulative change in accounting principle of \$1,261 million). As of December 31, 2003, we had total assets of \$23,728 million, including separate accounts. For the fiscal years ended December 31, 2003 and ended December 31, 2002, respectively, we had total revenues of \$2,678 million and \$2,401 million in Assurant Solutions, \$2,091 million and \$1,912 million in Assurant Health, \$1,450 million and \$1,455 million in Assurant Employee Benefits and \$722 million and \$727 million in Assurant PreNeed.

**Competitive Strengths**

We believe our competitive strengths include:

*Leadership Positions in Specialized Markets.* We are a market leader in many of our chosen markets, and we believe that our leadership positions provide us with the opportunity to generate high returns in these niche markets.

*Strong Relationships with Key Clients and Distributors.* As a result of our expertise in business-to-business management, we have created strong relationships with our distributors and clients in each of the niche markets we serve. We believe these relationships enable us to market our products and services to our customers in an effective and efficient manner that would be difficult for our competitors to replicate.

*History of Product Innovation and Ability to Adapt to Changing Market Conditions.* We are able to adapt quickly to changing market conditions by tailoring our product and service offerings to the specific needs of our clients. By understanding the dynamics of our core markets, we design innovative products and services to seek to sustain profitable growth and market leading positions.

*Disciplined Approach to Underwriting and Risk Management.* We focus on generating profitability through careful analysis of risks, drawing on our experience in core specialized markets and

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continually seeking to improve and redesign our product offerings based on our underwriting experience. In addition, we closely monitor regulatory and market developments and adapt our approach as we deem necessary to achieve our underwriting and risk management goals.

*Prudent Capital Management.* We focus on generating above-average returns on a risk-adjusted basis from our operating activities. We believe we have benefited from having the discipline and flexibility to deploy capital opportunistically and prudently to maximize returns to our stockholders. We invest capital in our business segments when we identify attractive profit opportunities in our target markets and also take a disciplined approach towards withdrawing capital when businesses are no longer anticipated to meet our expectations.

*Diverse Business Mix and Excellent Financial Strength.* We have four operating business segments, which are generally not affected in the same way by economic and operating trends. Our domestic operating insurance subsidiaries have financial strength ratings of A ( Excellent ) or A- ( Excellent ) from A.M. Best Company (A.M. Best). Ratings of A and A- are the second highest of ten ratings categories and the highest and lowest, respectively, within the category based on modifiers (i.e., A and A- are Excellent ). Six of our domestic operating insurance subsidiaries have financial strength ratings of A2 ( Good ) or A3 ( Good ) from Moody's Investors Service, Inc. (Moody's). Ratings of A2 and A3 are the third highest of nine ratings categories and mid-range and the lowest, respectively, within the category based on modifiers (i.e., A1, A2 and A3 are Good ). Seven of our domestic operating insurance subsidiaries have financial strength ratings of A ( Strong ) or A- ( Strong ) from Standard & Poor's (S&P). Ratings of A and A- are the third highest of nine ratings categories and mid-range and the lowest, respectively, within the category based on modifiers (i.e., A+, A and A- are Strong ). The Fitch financial strength rating for seven of our domestic insurance companies is A ( Strong ), which is the third highest of twelve rating categories and mid-range within the category based on modifiers (i.e., A+, A and A- are Strong ). We believe our solid capital base and overall financial strength allow us to distinguish ourselves from our competitors and continue to enable us to attract clients that are seeking long-term financial stability.

*Experienced Management Team with Proven Track Record and Entrepreneurial Culture.* We have a talented and experienced management team both at the corporate level and at each of our business segments. Our management team has successfully managed our business and executed our specialized niche strategy through numerous business cycles and political and regulatory challenges.

### **Growth Strategy**

Our objective is to achieve superior financial performance by enhancing our leading positions in our specialized niche insurance and related businesses. We intend to achieve this objective by continuing to execute the following strategies in pursuit of profitable growth:

*Enhance Market Position in Our Business Lines.* We have been selective in developing our product and service offerings and will continue to focus on providing products and services to those markets that we believe offer attractive growth opportunities. We will also seek to continue penetrating our target markets and expand our market positions by developing and introducing new products and services that are tailored to the specific needs of our clients.

*Develop New Distribution Channels and Strategic Alliances.* Our strong, multi-channel distribution network comprised of leading market participants has been critical to our market penetration and growth. We will continue to be selective in developing new distribution channels as we seek to expand our market share, enter new geographic markets and develop new niche businesses.

*Deploy Capital and Resources to Maintain Flexibility and Establish or Enhance Market Leading Positions.* We seek to deploy our capital and resources in a manner that provides us with the flexibility to grow internally through product development, new distribution relationships and investments in technology, as well as to pursue acquisitions. As we expand through internal growth and acquisitions, we intend to leverage our expertise in risk management, underwriting and business-to-business management, as well as our technological capabilities in running complex administration systems and support services.

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*Maintain Disciplined Pricing Approach.* We intend to maintain our disciplined pricing approach by seeking to focus on profitable products and markets and by pursuing a flexible approach to product design. We will continue to pursue pricing strategies and adjust our mix of businesses by geography and by product so that we can maintain attractive pricing and margins.

*Continue to Manage Capital Prudently.* We intend to manage our capital prudently relative to our risk exposure to maximize profitability and long-term growth in stockholder value. Our capital management strategy is to maintain financial strength through conservative and disciplined risk management practices. We will also maintain our conservative investment portfolio management philosophy and properly manage our invested assets in order to match the duration of our insurance product liabilities.

### **Risks Relating to Our Company**

As part of your evaluation of our Company, you should take into account the risks associated with our business. These risks include:

*Reliance on Relationships with Significant Clients, Distributors and Other Parties.* If our significant clients, distributors and other parties with which we do business decline to renew or seek to terminate our relationships or contractual arrangements, our results of operations and financial condition could be materially adversely affected. We are also subject to the risk that these parties may face financial difficulties, reputational issues or problems with respect to their own products and services, which may lead to decreased sales of products and services.

*Failure to Attract and Retain Sales Representatives or Develop and Maintain Distribution Sources.* Our sales representatives interface with clients and third party distributors. Our inability to attract and retain our sales representatives or an interruption in, or changes to, our relationships with various third-party distributors could impair our ability to compete and market our insurance products and services and materially adversely affect our results of operations and financial condition. In addition, our ability to market our products and services depends on our ability to tailor our channels of distribution to comply with changes in the regulatory environment.

*Effect of General Economic, Financial Market and Political Conditions.* Our results of operations and financial condition may be materially adversely affected by general economic, financial market and political conditions, including:

insurance industry cycles;

levels of employment;

levels of consumer lending;

levels of inflation and movements of the financial markets;

fluctuations in interest rates;

monetary policy;

demographics; and

legislative and competitive factors.

*Failure to Accurately Predict Benefits and Other Costs and Claims.* We may be unable to accurately predict benefits, claims and other costs or to manage such costs through our loss limitation methods, which could have a material adverse effect on our results of operations and financial condition if claims substantially exceed our expectations.

*Changes in Regulation.* Legislation or other regulatory reform that increases the regulatory requirements imposed on us or that changes the way we are able to do business may significantly harm our business or results of operations in the future.

For more information about these and other risks, see **Risk Factors** beginning on page 16. You should carefully consider these risk factors together with all the other information included in this prospectus.



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Assurant, Inc., was incorporated in October 2003. On February 4, 2004, we effectuated the merger of Fortis, Inc. with and into Assurant, Inc. for the purpose of redomesticating Fortis, Inc. in Delaware. Assurant, Inc. is domiciled in Delaware and is the successor to the business, operations and obligations of Fortis, Inc. Our principal executive offices are located at One Chase Manhattan Plaza, 41st Floor, New York, New York 10005. Our telephone number is 212-859-7000.

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**THE EXCHANGE OFFER**

Purpose of Exchange	We sold the restricted notes in a private offering to qualified institutional buyers and outside the United States in reliance on Regulation S under the Securities Act of 1933 through Citigroup Global Markets Inc., Banc One Capital Markets, Inc., Morgan Stanley & Co. Incorporated and J.P. Morgan Securities Inc. (the initial purchasers ). In connection with that offering, we and the initial purchasers entered into a registration rights agreement dated as of February 18, 2004 (the registration rights agreement ) for the benefit of the holders of the restricted notes providing for, among other things, this exchange offer. The exchange offer is intended to make the exchange notes freely transferable by the holders without further registration or any prospectus delivery requirements under the Securities Act of 1933. See The Exchange Offer.
The Exchange Offer	We are offering to issue the 2014 exchange notes in exchange for a like principal amount of your 2014 restricted notes. We are offering to issue the 2034 exchange notes in exchange for a like principal amount of your 2034 restricted notes. We are offering to issue the exchange notes to satisfy our obligations contained in the registration rights agreement entered into when the restricted notes were sold in transactions permitted by Rule 144A and Regulation S under the Securities Act of 1933 and therefore not registered with the SEC. The terms of the exchange notes and restricted notes are identical in all material respects (including principal amount, interest rate and maturity), except that the exchange notes are freely transferable by holders and are not subject to any covenant regarding registration under the Securities Act of 1933. See The Exchange Offer Terms of the Exchange Offer; Period for Tendering Restricted Securities and Procedures for Tendering Restricted Notes. The exchange offer is not conditioned upon any minimum aggregate principal amount of restricted notes being tendered for exchange.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on June 14, 2004 unless extended (the expiration date ).
Conditions of the Exchange Offer	Our obligation to consummate the exchange offer is not subject to any conditions, other than that the exchange offer does not violate any applicable law or SEC staff interpretation and that each holder makes certain representations to us. See The Exchange Offer Conditions to the Exchange Offer. We reserve the right to terminate or amend the exchange offer at any time prior to the expiration date if, among other things, there shall have been proposed, adopted or enacted any law, statute, rule, regulation or SEC staff interpretation which, in our judgment, could reasonably be expected to materially impair our ability to proceed with the exchange offer.
Procedures for Tendering Restricted Notes	Brokers, dealers, commercial banks, trust companies and other nominees who hold restricted notes through The Depository Trust Company ( DTC ) may effect tenders by book-entry transfer in

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accordance with DTC's Automated Tender Offer Program ( ATOP ). To tender restricted notes for exchange by book-entry transfer, an agent's message (as defined under The Exchange Offer Book-Entry Transfer ) or a completed and signed letter of transmittal (or facsimile thereof), with any required signature guarantees and any other required documentation, must be delivered to the exchange agent at the address set forth in this prospectus on or prior to the expiration date, and the restricted notes must be tendered in accordance with DTC's ATOP procedures for transfer. To tender restricted notes for exchange notes by means other than book-entry transfer, you must complete, sign and date the letter of transmittal (or facsimile thereof) in accordance with the instructions in this prospectus and contained in the letter of transmittal and mail or otherwise deliver the letter of transmittal (or facsimile thereof), together with the restricted notes, any required signature guarantees and any other required documentation, to the exchange agent at the address set forth in this prospectus on or prior to the expiration date. By executing the letter of transmittal, you represent to us that:

you are acquiring the exchange notes in the ordinary course of business;

you have no arrangement or understanding with any person to participate in the distribution of the restricted notes or the exchange notes within the meaning of the Securities Act of 1933;

if the holder is not a broker-dealer, you are not engaged in, and do not intend to engage in, the distribution of the exchange notes; and

you are not an affiliate of us (as defined under the Securities Act of 1933) or, if you are an affiliate, that you will comply with the registration and prospectus delivery requirements of the Securities Act of 1933 to the extent applicable.

In addition, each broker or dealer that receives exchange notes for its own account in exchange for any restricted notes that were acquired by the broker or dealer as a result of market-making activities or other trading activities must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. See The Exchange Offer Procedures for Tendering Restricted Notes and Plan of Distribution.

**Special Procedures for Beneficial Owners**

If you are a beneficial owner whose restricted notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender, you should contact the registered holder promptly and instruct the registered holder to tender on your behalf. If the restricted notes are in certificated form and you are a beneficial owner who wishes to tender on the registered holder's behalf, prior to completing and executing the letter of transmittal and delivering the restricted notes, you must either make appropriate arrangements to register ownership of the restricted notes in your name or obtain a properly completed bond

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power from the registered holder. The transfer of registered ownership may take considerable time. See The Exchange Offer Procedures for Tendering Restricted Notes.

Guaranteed Delivery Procedures

If you wish to tender your restricted notes in the exchange offer but your restricted notes are not immediately available for delivery or other documentation cannot be completed by the expiration date, or the procedures for book-entry transfer cannot be completed on a timely basis, you may still tender your restricted notes by completing, signing and delivering the letter of transmittal or, in the case of a book-entry transfer, an agent's message, with any required signature guarantees and any other documents required by the letter of transmittal, to the exchange agent prior to the expiration date and tendering your restricted notes according to the guaranteed delivery procedures set forth in The Exchange Offer Guaranteed Delivery Procedures.

Withdrawal Rights

You may withdraw your tender of restricted notes at any time prior to 5:00 p.m., New York City time, on the expiration date. See The Exchange Offer Withdrawal Rights.

Acceptance of Restricted Notes and Delivery of Exchange Notes

We will accept for exchange any and all restricted notes that are promptly tendered to the exchange agent prior to 5:00 p.m., New York City time, on the expiration date. The exchange notes issued pursuant to the exchange offer will be delivered promptly following the expiration date. See The Exchange Offer Terms of the Exchange Offer; Period for Tendering Restricted Securities.

Exchange Agent

SunTrust Bank is serving as the exchange agent in connection with the exchange offer. See The Exchange Offer Exchange Agent.

Tax Consequences

The exchange of restricted notes for exchange notes in the exchange offer will not be a taxable event for United States federal income tax purposes. See Certain United States Federal Income Tax Considerations.

Effect on Holders of the Restricted Notes

As a result of making this exchange offer, and upon acceptance for exchange of all validly tendered restricted notes pursuant to the terms thereof, we will have fulfilled some of our obligations under the registration rights agreement, and accordingly, there will be no increase in the annual interest rate on the restricted notes pursuant to the registration rights agreement. Holders of restricted notes who do not tender their restricted notes will continue to be entitled to all of the rights and limitations applicable thereto under the indenture dated as of February 18, 2004 (the indenture) between us and SunTrust Bank, as trustee (the trustee), relating to the notes, except for any rights under the indenture or the registration rights agreement which by their terms terminate or cease to be effective as a result of our making and accepting for exchange all validly tendered restricted notes pursuant to the exchange offer (including the right to receive additional interest as described above). All restricted notes that remain outstanding will continue to be subject to the restrictions on transfer provided for in the



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restricted notes and the indenture. To the extent that restricted notes are tendered and accepted in the exchange offer, the trading market, if any, for restricted notes could be adversely affected.

Use of Proceeds

We will not receive any cash proceeds from the issuance of exchange notes pursuant to the exchange offer. We used the approximately \$963.8 million of net proceeds from the sale of the restricted notes to repay a portion of our outstanding indebtedness under our \$1,100 million senior bridge credit facility. See Use of Proceeds.

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**SUMMARY OF TERMS OF THE NOTES**

Issuer	Assurant, Inc.
Notes Offered	<p>\$500,000,000 aggregate principal amount at maturity of 5.625% Senior Notes due 2014.</p> <p>\$475,000,000 aggregate principal amount at maturity of 6.750% Senior Notes due 2034.</p>
Maturity	<p>5.625% notes due 2014: February 15, 2014.</p> <p>6.750% notes due 2034: February 15, 2034.</p>
Interest	<p>5.625% notes due 2014: 5.625% per annum, payable semi-annually on February 15 and August 15, beginning August 15, 2004.</p> <p>6.750% notes due 2034: 6.750% per annum, payable semi-annually on February 15 and August 15, beginning August 15, 2004.</p> <p>Interest on the notes will accrue from February 18, 2004.</p>
Ranking	The restricted notes are and the exchange notes will be our senior unsecured obligations and rank equally with all our other senior unsecured indebtedness. Because we are a holding company whose principal assets are the capital stock of our subsidiaries, holders of the restricted notes have and holders of the exchange notes will have a junior position to claims of creditors of our subsidiaries, including policyholders, trade creditors, debt holders, taxing authorities, guarantee holders and preferred stockholders.
Redemption	The notes are not redeemable prior to maturity.
Registration Rights	<p>Under the registration rights agreement we executed concurrently with the offering of the restricted notes we have agreed to:</p> <p>use our reasonable best efforts to file a registration statement within 120 days after the issue date of the restricted notes enabling the holders of the notes to exchange the notes for publicly registered notes with identical terms (and this prospectus relates to that exchange offer);</p> <p>use our reasonable best efforts to cause the registration statement to become effective within 180 days after the issue date of the restricted notes;</p> <p>use our reasonable best efforts to complete the exchange offer within 225 days after the issue date of the restricted notes; and</p> <p>file a shelf registration statement for the resale of the notes if we cannot effect an exchange offer within the</p>

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time periods listed above and in certain other circumstances.

If we fail to fulfill our obligations with respect to registration of the restricted notes pursuant to the registration rights agreement (a registration default ), the annual interest rate on the restricted notes will increase.

Transfer Restrictions

The restricted notes have not been registered under the Securities Act. The restricted notes are subject to certain transfer restrictions and may only be offered or sold pursuant to an exemption from the registration requirements of, or in transactions not covered by, the Securities Act. The exchange notes will be registered under the Securities Act of 1933 and will not be subject to these restrictions.

Trustee

SunTrust Bank

Use of Proceeds

We will not receive any cash proceeds from the issuance of the exchange notes.

Risk Factors

Prospective investors should carefully consider all the information set forth in this prospectus and, in particular, should evaluate the specific risk factors set forth under Risk Factors, beginning on page 16, for a discussion of certain risks involved with an investment in the notes.

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**SUMMARY CONSOLIDATED FINANCIAL INFORMATION**

The following table sets forth our summary historical consolidated financial information for the periods ended and as of the dates indicated. Assurant, Inc., a Delaware corporation, was formed solely for the purpose of the redomestication of Fortis, Inc., which was organized as a Nevada corporation and of which 100% of the outstanding common stock was indirectly owned by Fortis N.V. and Fortis SA/NV prior to our initial public offering. On February 4, 2004, we effectuated the merger of Fortis, Inc. with and into Assurant, Inc. for the purpose of redomesticating Fortis, Inc. in Delaware. Assurant, Inc. is domiciled in Delaware and is the successor to the business, operations and obligations of Fortis, Inc.

The summary consolidated statement of operations data for each of the three years in the period ended December 31, 2003 are derived from the audited consolidated financial statements of Assurant, Inc. and its consolidated subsidiaries included elsewhere in this prospectus, which have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). These historical results are not necessarily indicative of expected results for any future period. You should read the following summary consolidated financial information together with the other information contained in this prospectus including Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this prospectus.

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	For the Year Ended December 31,		
	2003	2002	2001
(in thousands, except share amounts and per share data)			
<b>Summary Consolidated Statement of Operations Data:</b>			
<b>Revenues</b>			
Net earned premiums and other considerations	\$ 6,156,772	\$ 5,681,596	\$ 5,242,185
Net investment income	607,313	631,828	711,782
Net realized gains (losses) on investments	1,868	(118,372)	(119,016)
Amortization of deferred gain on disposal of businesses	68,277	79,801	68,296
Gain on disposal of businesses		10,672	61,688
Fees and other income	291,983	246,675	221,939
	<u>7,066,213</u>	<u>6,532,200</u>	<u>6,186,874</u>
<b>Benefits, losses and expenses</b>			
Policyholder benefits	3,657,763	3,435,175	3,240,091
Amortization of deferred acquisition costs and value of businesses acquired	909,149	876,185	875,703
Underwriting, general and administrative expenses	1,919,989	1,732,047	1,619,765
Amortization of goodwill			113,300
Interest expense	1,175		14,001
Distributions on preferred securities of subsidiary trusts	112,958	118,396	118,370
Interest premium on redemption of preferred securities of subsidiary trusts	205,822		
	<u>6,806,856</u>	<u>6,161,803</u>	<u>5,981,230</u>
Income before income taxes and cumulative effect of change in accounting principle	259,357	370,397	205,644
Income taxes	73,705	110,657	107,591
	<u>185,652</u>	<u>\$ 259,740</u>	<u>\$ 98,053</u>
Net income before cumulative effect of change in accounting principle		(1,260,939)	
	<u>\$ 185,652</u>	<u>\$ (1,001,199)</u>	<u>\$ 98,053</u>
<b>Per Share Data:</b>			
Net income (loss) per share	\$ 1.70	\$ (9.17)	\$ 0.90
Weighted average of basic and diluted shares of common stock outstanding(1)	109,222,276	109,222,276	109,222,276
Pro forma common stock outstanding(2)	142,268,106		
Pro forma net income per share(2)	\$ 1.30	\$	\$
Dividends per share:			
Common Stock	\$ 1.66	\$ 0.38	\$ 1.00

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	At December 31, 2003	
	Actual	As Adjusted(3)
(in thousands, except share amounts and per share data)		
<b>Summary Consolidated Balance Sheet Data:</b>		
Cash and cash equivalents and investments	\$ 11,881,802	\$ 11,558,119
Total assets	23,728,319	23,412,399
Policy liabilities(4)	12,881,796	12,881,796
Debt	1,750,000	971,538
Mandatorily redeemable preferred securities of subsidiary trusts(5)	196,224	
Mandatorily redeemable preferred stock	24,160	24,160
Total stockholders' equity	\$ 2,632,103	\$ 3,314,226
<b>Per Share Data:</b>		
Total book value per share(6)	\$ 24.10	\$ 23.30

(1) Reflects only the following events as if such events had occurred at the beginning of the period indicated:

the exchange of each share of Class A Common Stock of Fortis, Inc. for 10.75882039 shares of Common Stock of Assurant, Inc. in the merger for the purpose of redomestication; and

the automatic conversion of the shares of Class B Common Stock and Class C Common Stock issued in the merger in accordance with their terms simultaneously with the closing of our initial public offering into an aggregate of 25,841,418 shares of Common Stock of Assurant, Inc. for all of the outstanding Class B Common Stock and Class C Common Stock based on the public offering price of \$22 a share.

(2) Reflects only the following events as if such events had occurred at the beginning of the period indicated:

the exchange of each share of Fortis, Inc. Class A Common Stock for 10.75882039 shares of Common Stock of Assurant, Inc., which totaled 83,380,858 shares and the conversion of the Class B Common Stock and Class C Common Stock outstanding into an aggregate of 25,841,418 shares of Common Stock of Assurant, Inc., resulting in 109,222,276 shares of Common Stock outstanding; and

the issuance of 32,976,854 shares of Common Stock to Fortis Insurance N.V. in exchange for a \$725.5 million capital contribution and the issuance 68,976 shares to certain officers of Assurant, Inc., resulting in 142,268,106 shares of Common Stock outstanding as of February 5, 2004.

(3) The as adjusted balance sheet data as of December 31, 2003 reflects the following events as if such events had occurred on December 31, 2003:

the issuance of the restricted notes and the use of the proceeds from the issuance to repay a portion of the outstanding indebtedness under the \$1,100 million senior bridge credit facility and the subsequent repayment by us of the remaining indebtedness under the senior bridge credit facility using approximately \$60.8 million in cash on hand;

the issuance by us of 32,976,854 shares of Common Stock of Assurant, Inc. to Fortis Insurance N.V. simultaneously with the closing of our initial public offering in exchange for the \$725.5 million capital contribution;

the redemption by us of the mandatorily redeemable preferred securities of a subsidiary trust at 100% of the liquidation amount thereof plus (i) accrued interest to the date of redemption and (ii) premium of approximately \$67 million, which occurred in

January 2004;

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the consummation of the merger of Fortis, Inc. with and into Assurant, Inc., which occurred on February 4, 2004, including the exchange in the merger of each share of Class A Common Stock of Fortis, Inc. having a par value of \$0.10 per share for 10,758,820,39 shares of Common Stock of Assurant, Inc. having a par value of \$0.01 per share;

the automatic conversion of the shares of Class B Common Stock and Class C Common Stock issued in the merger in accordance with their terms simultaneously with the closing of our initial public offering into an aggregate of 25,841,418 shares of Common Stock of Assurant, Inc. for all of the outstanding Class B Common Stock and Class C Common Stock based on the public offering price of our Common Stock; and

the issuance by us of an aggregate of 68,976 shares of Common Stock of Assurant, Inc. to certain of our officers pursuant to stock grants made on the closing of our initial public offering and to certain of our directors pursuant to stock grants made on February 4, 2004.

See Capitalization.

- (4) Policy liabilities include future policy benefits and expenses, unearned premiums and claims and benefits payable.
- (5) The proceeds from the sale of these securities were used by the applicable subsidiary trust to purchase our subordinated debentures, which are eliminated upon consolidation. See Certain Relationships and Related Transactions.
- (6) Actual total book value per share based on total stockholders' equity divided by 109,222,276 shares issued and outstanding, and as adjusted total book value per share based on as adjusted total stockholders' equity divided by as adjusted 142,268,106 shares issued and outstanding.



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**RISK FACTORS**

*You should carefully consider the following risks, together with the other information contained in this prospectus, before deciding to tender restricted notes in the exchange offer. Any of the events or circumstances described as risks below could result in a significant or material adverse effect on our business, results of operations or financial condition and a corresponding decline in the market price of or our ability to repay the notes.*

***Risks Related to Our Company***

**Our profitability may decline if we are unable to maintain our relationships with significant clients, distributors and other parties important to the success of our business.**

Our relationships and contractual arrangements with significant clients, distributors and other parties with which we do business are important to the success of our business segments. Many of these arrangements are exclusive. For example, in Assurant Solutions, we have exclusive relationships with several mortgage lenders and servicers, retailers, credit card issuers and other financial institutions through which we distribute our products. In Assurant Health, we have exclusive distribution relationships for our individual health insurance products with Insurance Placement Services, Inc. (IPSI), a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company (State Farm), United Services Automobile Association (USAA) and Mutual of Omaha, as well as a relationship with Health Advocates Alliance, the association through which we provide many of our individual health insurance products, through Assurant Health's agreement dated September 1, 2003 with its administrator, National Administration Company, Inc. An association in the health insurance market is an entity that was formed and maintained in good faith for purposes other than obtaining insurance and does not make health insurance coverage offered through the association available other than in connection with membership in the association. The agreement that provides for our exclusive distribution relationship with IPSI terminates in July 2004, but may be extended if agreed to by both parties. We also maintain contractual relationships with several separate networks of health and dental care providers, each referred to as a PPO, through which we obtain discounts. A PPO is an entity that acts as an intermediary between an insurer and a network of hospitals, physicians, dentists or other providers of health care who have agreed to provide care to insureds subject to contractually established reimbursement rates. In Assurant PreNeed, we have an exclusive distribution relationship with SCI. Many of these arrangements have terms ranging from one to five years. Although we believe we have generally been successful in maintaining our client, distribution and related relationships, if these parties decline to renew or seek to terminate these arrangements, our results of operations and financial condition could be materially adversely affected. In addition, we are subject to the risk that these parties may face financial difficulties, reputational issues or problems with respect to their own products and services, which may lead to decreased sales of our products and services. Moreover, if one or more of our clients or distributors consolidate or align themselves with other companies, we may lose business or suffer decreased revenues. A loss of the discount arrangements with PPOs could also lead to higher medical or dental costs and/or a loss of members to other medical or dental plans.

For example, Assurant Solutions lost a few clients over the last three years as a result of bankruptcies and termination of contracts either by it or its clients; however, none of the clients lost was significant to its business. At Assurant Health, client turnover increased slightly over the last three years from issues related to the slowing economy, particularly in 2001 through early 2003; however, none of the clients lost was significant to its business. Similar to Assurant Health, Assurant Employee Benefits' client turnover increased slightly over the last three years from issues related to the slowing economy, particularly in 2001 through early 2003, such as companies going out of business and businesses no longer providing benefits; however, none of the clients lost was significant to its business. Assurant PreNeed terminated several client relationships with three funeral home groups in 2003 because of profitability issues with the business; however, none of the clients terminated was significant to its business.

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**Sales of our products and services may be reduced if we are unable to attract and retain sales representatives or develop and maintain distribution sources.**

We distribute our insurance products and services through a variety of distribution channels, including:

independent employee benefits specialists;

brokers;

managing general agents;

life agents;

financial institutions;

funeral directors;

association groups; and

other third-party marketing organizations.

We do not distribute our insurance products and services through captive or affiliated agents except for a small number of affiliated agents at Assurant Health. Our relationships with these various distributors are significant both for our revenues and profits. In Assurant Health, we depend in large part on the services of independent agents and brokers and on associations, including Health Advocates Alliance, in the marketing of our products. In Assurant Employee Benefits, independent agents and brokers who act as advisors to our customers, market and distribute our products. Independent agents and brokers are typically not exclusively dedicated to us and usually also market products of our competitors. Strong competition exists among insurers to form relationships with agents and brokers of demonstrated ability. We compete with other insurers for sales representatives, agents and brokers primarily on the basis of our financial position, support services, compensation and product features. In addition, by relying on independent agents and brokers to distribute products for us, we face continued competition from our competitors' products. Moreover, our ability to market our products and services depends on our ability to tailor our channels of distribution to comply with changes in the regulatory environment. Recently, the marketing of health insurance through association groups has come under increased scrutiny. An interruption in, or changes to, our relationships with various third-party distributors or our inability to respond to regulatory changes could impair our ability to compete and market our insurance products and services and materially adversely affect our results of operations and financial condition.

We have our own sales representatives whose role in the distribution process varies by segment. We depend in large part on our sales representatives to develop and maintain client relationships. Our inability to attract and retain effective sales representatives could materially adversely affect our results of operations and financial condition.

**General economic, financial market and political conditions may adversely affect our results of operations and financial condition.**

Our results of operations and financial condition may be materially adversely affected from time to time by general economic, financial market and political conditions. These conditions include economic cycles such as:

insurance industry cycles;

levels of employment;

levels of consumer lending;

levels of inflation; and

movements of the financial markets.



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Fluctuations in interest rates, monetary policy, demographics, and legislative and competitive factors also influence our performance. During periods of economic downturn:

individuals and businesses may choose not to purchase our insurance products and other related products and services, may terminate existing policies or contracts or permit them to lapse, may choose to reduce the amount of coverage purchased or, in Assurant Employee Benefits and in small group employer health insurance in Assurant Health, may have fewer employees requiring insurance coverage due to rising unemployment levels;

new disability insurance claims and claims on other specialized insurance products tend to rise;

there is a higher loss ratio on credit card and installment loan insurance due to rising unemployment levels; and

insureds tend to increase their utilization of health and dental benefits if they anticipate becoming unemployed or losing benefits.

In addition, general inflationary pressures may affect the costs of medical and dental care, as well as repair and replacement costs on our real and personal property lines, increasing the costs of paying claims. Inflationary pressures may also affect the costs associated with our pre-funded funeral insurance policies, particularly those that are guaranteed to grow with the Consumer Price Index. Pre-funded funeral insurance, or pre-need, provides benefits to fund the costs incurred in connection with a pre-arranged funeral contract, which is an arrangement between a funeral firm and an individual whereby the funeral firm agrees to perform a selected funeral upon the individual's death.

**Our actual claims losses may exceed our reserves for claims, which may require us to establish additional reserves that may materially reduce our earnings, profitability and capital.**

We maintain reserves to cover our estimated ultimate exposure for claims and claim adjustment expenses with respect to reported and unreported claims incurred but not reported as of the end of each accounting period. Reserves, whether calculated under GAAP or statutory accounting principles (SAP), do not represent an exact calculation of exposure, but instead represent our best estimates, generally involving actuarial projections at a given time, of what we expect the ultimate settlement and administration of a claim or group of claims will cost based on our assessment of facts and circumstances then known. The adequacy of reserves will be impacted by future trends in claims severity, frequency, judicial theories of liability and other factors. These variables are affected by both external and internal events, such as:

changes in the economic cycle;

changes in the social perception of the value of work;

emerging medical perceptions regarding physiological or psychological causes of disability;

emerging health issues and new methods of treatment or accommodation;

inflation;

judicial trends;

legislative changes; and

claims handling procedures.

Many of these items are not directly quantifiable, particularly on a prospective basis. Reserve estimates are refined as experience develops. Adjustments to reserves, both positive and negative, are reflected in the statement of operations of the period in which such estimates are updated. Because establishment of reserves is an inherently uncertain process involving estimates of future losses, there can be no certainty that ultimate losses will not exceed existing claims reserves. During the past three years, we did not experience substantial deviations in actual claims losses from reserve estimates previously established. However, future loss development could require reserves to be increased, which could have a material adverse effect on our earnings in the periods in which such increases are made.

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**We may be unable to accurately predict benefits, claims and other costs or to manage such costs through our loss limitation methods, which could have a material adverse effect on our results of operations and financial condition.**

Our profitability depends in large part on accurately predicting benefits, claims and other costs, including medical and dental costs, and predictions regarding the frequency and magnitude of claims on our disability and property coverages. It also depends on our ability to manage future benefit and other costs through product design, underwriting criteria, utilization review or claims management and, in health and dental insurance, negotiation of favorable provider contracts. Utilization review is a review process designed to control and limit medical expenses, which includes, among other things, requiring certification for admission to a health care facility and cost-effective ways of handling patients with catastrophic illnesses. Claims management entails the use of a variety of means to mitigate the extent of losses incurred by insureds and the corresponding benefit cost, which includes efforts to improve the quality of medical care provided to insureds and to assist them with vocational services. The aging of the population and other demographic characteristics and advances in medical technology continue to contribute to rising health care costs. Our ability to predict and manage costs and claims, as well as our business, results of operations and financial condition may be adversely affected by:

changes in health and dental care practices;

inflation;

new technologies;

the cost of prescription drugs;

clusters of high cost cases;

changes in the regulatory environment;

economic factors;

the occurrence of catastrophes; and

numerous other factors affecting the cost of health and dental care and the frequency and severity of claims in all our business segments.

The judicial and regulatory environments, changes in the composition of the kinds of work available in the economy, market conditions and numerous other factors may also materially adversely affect our ability to manage claim costs. As a result of one or more of these factors or other factors, claims could substantially exceed our expectations, which could have a material adverse effect on our results of operations and financial condition.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues relating to claims and coverage may emerge. These issues could materially adversely affect our results of operations and financial condition by either extending coverage beyond our underwriting intent or by increasing the number or size of claims or both. We may be limited in our ability to respond to such changes, by insurance regulations, existing contract terms, contract filing requirements, market conditions or other factors.

**Our investment portfolio is subject to several risks that may diminish the value of our invested assets and affect our sales and profitability.**

*Our investment portfolio may suffer reduced returns or losses that could reduce our profitability.*

Investment returns are an important part of our overall profitability and significant fluctuations in the fixed income market could impair our profitability, financial condition and/or cash flows. Our investments are subject to market-wide risks and fluctuations, as well as to risks inherent in particular securities. In particular, volatility of claims may force us to liquidate securities prior to maturity, which may cause us to incur capital losses. If we do not structure our investment portfolio so that it is appropriately matched with our insurance



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liabilities, we may be forced to liquidate investments prior to maturity at a significant loss to cover such liabilities. For the year ended December 31, 2003, our net investment income was \$607 million and our net realized gains on investments were \$2 million, which collectively accounted for approximately 9% of our total revenues during such period. For the year ended December 31, 2002, our net investment income was \$632 million and our net realized losses on investments were \$118 million, which collectively accounted for approximately 8% of our total revenues during such period.

*The performance of our investment portfolio is subject to fluctuations due to changes in interest rates and market conditions.*

Changes in interest rates can negatively affect the performance of some of our investments. Interest rate volatility can reduce unrealized gains or create unrealized losses in our portfolios. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Fluctuations in interest rates affect our returns on, and the market value of, fixed maturity and short-term investments, which comprised \$9,005 million, or 82%, of the fair value of our total investments as of December 31, 2003 and \$8,720 million, or 87%, as of December 31, 2002.

The fair market value of the fixed maturity securities in our portfolio and the investment income from these securities fluctuate depending on general economic and market conditions. The fair market value generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us from future investments in fixed maturity securities will generally increase or decrease with interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. In periods of declining interest rates, mortgage prepayments generally increase and mortgage-backed securities, commercial mortgage obligations and bonds in our investment portfolio are more likely to be prepaid or redeemed as borrowers seek to borrow at lower interest rates, and we may be required to reinvest those funds in lower interest-bearing investments. As of December 31, 2003, mortgage-backed and other asset-backed securities represented approximately \$1,927 million, or 18%, of the fair value of our total investments.

Because substantially all of our fixed maturity securities are classified as available for sale, changes in the market value of these securities are reflected in our balance sheet. Similar treatment is not available for liabilities. Therefore, interest rate fluctuations affect the value of our investments and could materially adversely affect our results of operations and financial condition.

We employ asset/ liability matching strategies to reduce the adverse effects of interest rate volatility and to ensure that cash flows are available to pay claims as they become due. Our asset/ liability matching strategies include:

asset/liability duration management;

structuring our bond and commercial mortgage loan portfolios to limit the effects of prepayments; and

consistent monitoring of, and appropriate changes to, the pricing of our products.

However, these strategies may fail to eliminate or reduce the adverse effects of interest rate volatility, and no assurances can be given that significant fluctuations in the level of interest rates will not have a material adverse effect on our results of operations and financial condition.

In addition, Assurant PreNeed generally writes whole life insurance policies with increasing death benefits and obtains much of its profits through interest rate spreads. Whole life insurance refers to a form of life insurance that provides guaranteed death benefits and guaranteed cash values to policyholders. Interest rate spreads refer to the difference between the death benefit growth rates on pre-funded funeral insurance policies and the investment returns generated on the assets we hold related to those policies. As of December 31, 2003, approximately 81% of Assurant PreNeed's in force insurance policy reserves related to policies that provide for death benefit growth, some of which provide for minimum death benefit growth pegged to changes in the Consumer Price Index. In extended periods of declining interest rates or high

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inflation, there may be compression in the spread between Assurant PreNeed's death benefit growth rates and its investment earnings. As a result, declining interest rates or high inflation rates may have a material adverse effect on our results of operations and our overall financial condition.

Assurant Employee Benefits calculates reserves for long-term disability and life waiver of premium claims using net present value calculations based on current interest rates at the time claims are funded and expectations regarding future interest rates. Waiver of premium refers to a provision in a life insurance policy pursuant to which an insured with total disability that lasts for a specified period no longer has to pay premiums for the duration of the disability or for a stated period, during which time the life insurance coverage provides continued coverage. If interest rates decline, reserves for open and/or new claims would need to be calculated using lower discount rates thereby increasing the net present value of those claims and the required reserves. Depending on the magnitude of the decline, this could have a material adverse effect on our results of operations and financial condition. In addition, investment income may be lower than that assumed in setting premium rates.

*Our investment portfolio is subject to credit risk.*

We are subject to credit risk in our investment portfolio, primarily from our investments in corporate bonds and preferred stocks. Defaults by third parties in the payment or performance of their obligations could reduce our investment income and realized investment gains or result in investment losses. Further, the value of any particular fixed maturity security is subject to impairment based on the creditworthiness of a given issuer. As of December 31, 2003, we held \$8,729 million of fixed maturity securities, or 80% of the fair value of our total invested assets at such date. Our fixed maturity portfolio also includes below investment grade securities, which comprised 6% of the fair value of our total fixed maturity securities at December 31, 2003 and December 31, 2002. These investments generally provide higher expected returns but present greater risk and can be less liquid than investment grade securities. A significant increase in defaults and impairments on our fixed maturity securities portfolio could materially adversely affect our results of operations and financial condition. Other-than-temporary impairment losses on our available for sale securities totaled \$20 million for the year ended December 31, 2003 and \$85 million for the year ended December 31, 2002.

As of December 31, 2003, less than 5% of the fair value of our total investments was invested in common stock; however, we have had higher percentages in the past and may make more such investments in the future. Investments in common stock generally provide higher expected total returns, but present greater risk to preservation of principal than our fixed income investments.

In addition, while currently we do not utilize derivative instruments to hedge or manage our interest rate or equity risk, we may do so in the future. Derivative instruments generally present greater risk than fixed income investments or equity investments because of their greater sensitivity to market fluctuations. Effective as of August 1, 2003, we utilize derivative instruments in managing Assurant PreNeed's exposure to inflation risk. While these instruments seek to protect a portion of Assurant PreNeed's existing business that is tied to the Consumer Price Index, a sharp increase in inflation could have a material adverse effect on our results of operations and financial condition.

*Our commercial mortgage loans and real estate investments subject us to liquidity risk.*

As of December 31, 2003, commercial mortgage loans on real estate investments represented approximately 9% of the fair value of our total investments. These types of investments are relatively illiquid, thus increasing our liquidity risk. In addition, if we require extremely large amounts of cash on short notice, we may have difficulty selling these investments at attractive prices, in a timely manner, or both.

*The risk parameters of our investment portfolio may not target an appropriate level of risk, thereby reducing our profitability and diminishing our ability to compete and grow.*

We seek to earn returns on our investments to enhance our ability to offer competitive rates and prices to our customers. Accordingly, our investment decisions and objectives are a function of the underlying risks and product profiles of each of our business segments. However, we may not succeed in targeting an appropriate overall risk level for our investment portfolio. As a result, the return on our investments may be insufficient to



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meet our profit targets over the long-term, thereby reducing our profitability. If in response we choose to increase our product prices to maintain profitability, we may diminish our ability to compete and grow.

*Environmental liability exposure may result from our commercial mortgage loan portfolio and real estate investments.*

Liability under environmental protection laws resulting from our commercial mortgage loan portfolio and real estate investments may harm our financial strength and reduce our profitability. Under the laws of several states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of the cleanup. In some states, this kind of lien has priority over the lien of an existing mortgage against the property, which would impair our ability to foreclose on that property should the related loan be in default. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, under certain circumstances, we may be liable for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property securing a mortgage loan held by us. We also may face this liability after foreclosing on a property securing a mortgage loan held by us after a loan default.

**Catastrophe losses, including man-made catastrophe losses, could materially reduce our profitability and have a material adverse effect on our results of operations and financial condition.**

Our insurance operations expose us to claims arising out of catastrophes, particularly in our homeowners, life and other personal business lines. We have experienced, and expect in the future to experience, catastrophe losses that may materially reduce our profitability or have a material adverse effect on our results of operations and financial condition. Catastrophes can be caused by various natural events, including hurricanes, windstorms, earthquakes, hailstorms, severe winter weather, fires and epidemics, or can be man-made catastrophes, including terrorist attacks or accidents such as airplane crashes. The frequency and severity of catastrophes are inherently unpredictable. Catastrophe losses can vary widely and could significantly exceed our recent historic results. It is possible that both the frequency and severity of man-made catastrophes will increase and that we will not be able to implement exclusions from coverage in our policies or obtain reinsurance for such catastrophes.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most of our catastrophe claims in the past have related to homeowners and other personal lines coverages, which for the year ended December 31, 2003 represented approximately 24% of our net earned premiums and other considerations in our Assurant Solutions segment. In addition, as of December 31, 2003, approximately 34% of the insurance in force in our homeowners and other personal lines related to properties located in California, Florida and Texas. As a result of our creditor-placed homeowners insurance product, which typically provides coverage against an insured's property being destroyed or damaged by various perils, our concentration in these areas may increase in the future. This is because in our creditor-placed homeowners insurance line, we agree to provide homeowners insurance coverage automatically. If other insurers withdraw coverage in these or other states, this may lead to adverse selection and increased utilization of our creditor-placed homeowners insurance in these areas. Adverse selection refers to the process by which an applicant who believes himself to be uninsurable, or at greater than average risk, seeks to obtain an insurance policy at a standard premium rate.

Claims resulting from natural or man-made catastrophes could cause substantial volatility in our financial results for any fiscal quarter or year and could materially reduce our profitability or harm our financial condition. Our ability to write new business also could be affected. Increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from catastrophes in the future.

Pre-tax catastrophe losses in excess of \$1 million (before the benefits of reinsurance) that we have experienced in recent years are:

total losses of approximately \$10 million incurred in 2001 in connection with tropical storm Allison;

total losses of approximately \$12 million incurred in 2002 in connection with Arizona wildfires, Texas floods and Hurricane Lili; and

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total losses of approximately \$30 million incurred in 2003 in connection with various catastrophes caused by windstorms, hailstorms, tornadoes, Hurricane Isabel and wildfires in southern California.

No liquidation in investments was required in connection with these catastrophes as the claims were paid from current cash flow, cash on hand or short-term investments.

In addition, our group life and health insurance operations could be materially impacted by catastrophes such as terrorist attacks or by an epidemic that causes a widespread increase in mortality, morbidity or disability rates or that causes an increase in the need for medical care. The mortality rate refers to the relationship of the frequency of deaths of individual members of a group to the entire group membership over a specified period of time. The morbidity rate refers to the relationship of the incidence of disease or disability contracted by individual members of a group to the entire group membership over a specified period of time. For example, the influenza epidemic of 1918 caused several million deaths. Losses due to catastrophes would not generally be covered by reinsurance and could have a material adverse effect on our results of operations and financial condition. In addition, in Assurant PreNeed the average age of policyholders is in excess of 70 years. This group is more susceptible to epidemics than the overall population, and an epidemic resulting in a higher incidence of mortality could have a material adverse effect on our results of operations and financial condition.

Our ability to manage these risks depends in part on our successful utilization of catastrophic property and life reinsurance to limit the size of property and life losses from a single event or multiple events, and life and disability reinsurance to limit the size of life or disability insurance exposure on an individual insured life. It also depends in part on state regulation that may prohibit us from excluding such risks or from withdrawing from or increasing premium rates in catastrophe-prone areas. As discussed further below, catastrophe reinsurance for our group insurance lines is not currently widely available. This means that the occurrence of a significant catastrophe could materially reduce our profitability and have a material adverse effect on our results of operations and financial condition.

**Reinsurance may not be available or adequate to protect us against losses, and we are subject to the credit risk of reinsurers.**

As part of our overall risk and capacity management strategy, we purchase reinsurance for certain risks underwritten by our various business segments. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. For example, subsequent to the terrorist assaults of September 11, 2001, reinsurance for man-made catastrophes became generally unavailable due to capacity constraints and, to the limited extent available, much more expensive. The high cost of reinsurance or lack of affordable coverage could adversely affect our results. If we fail to obtain sufficient reinsurance, it could adversely affect our ability to write future business.

As part of our business, we have reinsured certain life, property and casualty and health risks to reinsurers. Although the reinsurer is liable to us to the extent of the ceded reinsurance, we remain liable as the direct insurer on all risks reinsured. As a result, ceded reinsurance arrangements do not eliminate our obligation to pay claims. We are subject to credit risk with respect to our ability to recover amounts due from reinsurers. Our reinsurers may not pay the reinsurance recoverables that they owe to us or they may not pay such recoverables on a timely basis. A reinsurer's insolvency, underwriting results or investment returns may affect its ability to fulfill reinsurance obligations.

Our reinsurance facilities are generally subject to annual renewal. We may not be able to maintain our current reinsurance facilities and, even where highly desirable or necessary, we may not be able to obtain other reinsurance facilities in adequate amounts and at favorable rates. If we are unable to renew our expiring facilities or to obtain new reinsurance facilities, either our net exposures would increase or, if we are unwilling to bear an increase in net exposures, we may have to reduce the level of our underwriting commitments. Either of these potential developments could materially adversely affect our results of operations and financial condition.

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**We have sold businesses through reinsurance that could again become our direct financial and administrative responsibility if the purchasing companies were to become insolvent.**

We have sold businesses through reinsurance ceded to third parties, such as our 2001 sale of the insurance operations of our Fortis Financial Group (FFG) division to The Hartford Financial Services Group Inc. (The Hartford). The assets backing the liabilities on these businesses are held in a trust, and the separate accounts relating to the FFG business are still reflected on our balance sheet. Such separate accounts represent assets allocated under certain policies and contracts that are segregated from the general account and other separate accounts. The policyholder or contractholder bears the risk of investments held in a separate account. However, we would be responsible for administering this business in the event of a default by the reinsurer. We do not have the administrative systems and capabilities to process this business today. Accordingly, we would need to obtain those capabilities in the event of an insolvency of one or more of the reinsurers of these businesses. We might be forced to obtain such capabilities on unfavorable terms, with a resulting material adverse effect on our results of operations and financial condition. In addition, under the reinsurance agreement, The Hartford is obligated to contribute funds to increase the value of the separate accounts relating to the business sold if such value declines. If The Hartford fails to fulfill these obligations, we will be obligated to make these payments.

**We are exposed to the credit risk of our agents in Assurant PreNeed and our clients in Assurant Solutions.**

We advance agents' commissions as part of our pre-funded funeral insurance product offerings. These advances are a percentage of the total face amount of coverage as opposed to a percentage of the first-year premium paid, the formula that is more common in other life insurance markets. There is a one-year payback provision against the agency if death or lapse occurs within the first policy year. There is a very large producer within Assurant PreNeed and if it were unable to fulfill its payback obligations, it could have an adverse effect on our results of operations and financial condition. However, we have not had any loss experience with this very large producer to date. In addition, we are subject to the credit risk of the parties with which we contract in Assurant Solutions. If these parties fail to remit payments owed to us or pass on payments they collect on our behalf, it could have an adverse effect on our results of operations. For example, a client with whom we do business has declared bankruptcy. In the event that this client does not honor its claims obligation, we would be liable for making payment, which we estimate to be approximately \$37 million, net of offsetting collateral, as of December 31, 2003. We would also be responsible for administering such claims. Probable and estimable loss contingencies associated with this risk have been accrued.

**A further decline in the manufactured housing market may adversely affect our results of operations and financial condition.**

The manufactured housing industry has experienced a significant decline in both shipments and retail sales in the last five years. Manufactured housing shipments have decreased from approximately 370,000 in 1998 to 130,000 in 2003, representing a 65% decline. Repossessions are at an all time high, resale values have been significantly reduced and several lenders, dealers, manufacturers and vertically integrated manufactured housing companies have either ceased operations or gone bankrupt. This downturn in the industry is the result of several factors, including excess production, aggressive sales practices, reduced underwriting standards and poor lending practices. As a result of this downturn, the industry has experienced consolidation, with the leaders purchasing the weaker competitors. If these downward trends continue, our results of operations and financial condition may be adversely affected.

**The financial strength of our insurance company subsidiaries is rated by A.M. Best, Moody's, S&P and Fitch and a decline in these ratings could affect our standing in the insurance industry and cause our sales and earnings to decrease.**

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. All of our domestic operating insurance subsidiaries are rated by A.M. Best, six of our domestic operating insurance subsidiaries are rated by Moody's and seven of our domestic operating insurance subsidiaries are rated by S&P and Fitch. The ratings reflect A.M. Best's, Moody's, S&P's and Fitch's opinions

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of our subsidiaries' financial strength, operating performance, strategic position and ability to meet their obligations to policyholders. The ratings are not evaluations directed to investors and are not recommendations to buy, sell or hold our securities. These ratings are subject to periodic review by A.M. Best, Moody's, S&P and Fitch, and we cannot assure you that we will be able to retain these ratings.

Most of our domestic operating insurance subsidiaries have A.M. Best financial strength ratings of A (Excellent), which is the second highest of ten ratings categories and the highest within the category based on modifiers (i.e., A and A- are Excellent). Our other domestic operating insurance subsidiaries have A.M. Best financial strength ratings of A- (Excellent), which is the second highest of ten ratings categories and the lowest within the category based on modifiers.

The Moody's financial strength rating is A2 (Good) for one of our domestic operating insurance subsidiaries, which is the third highest of nine ratings categories and mid-range within the category based on modifiers (i.e., A1, A2 and A3 are Good), and A3 (Good) for five of our domestic operating insurance subsidiaries, which is the third highest of nine ratings categories and the lowest within the category based on modifiers.

The S&P financial strength rating is A (Strong) for five of our domestic operating insurance subsidiaries, which is the third highest of nine ratings categories and mid-range within the category based on modifiers (i.e., A+, A and A- are Strong), and A- (Strong) for two of our domestic operating insurance subsidiaries, which is the third highest of nine ratings categories and the lowest within the category based on modifiers.

The Fitch financial strength rating for the seven rated domestic insurance companies is A (Strong) which is the third highest of twelve ratings categories and mid-range within the category based on modifiers (i.e., A+, A and A- are Strong).

Rating agencies review their ratings periodically and our current ratings may not be maintained in the future. If our ratings are reduced from their current levels by A.M. Best, Moody's, S&P or Fitch, or placed under surveillance or review with possible negative implications, our competitive position in the respective insurance industry segments could suffer and it could be more difficult for us to market our products. Rating agencies may take action to lower our ratings in the future due to, among other things:

the competitive environment in the insurance industry, which may adversely affect our revenues;

the inherent uncertainty in determining reserves for future claims, which may cause us to increase our reserves for claims;

the outcome of pending litigation and regulatory investigations, which may adversely affect our financial position and reputation; and

possible changes in the methodology or criteria applied by the rating agencies.

As customers and their advisors place importance on our financial strength ratings, we may lose customers and compete less successfully if we are downgraded. In addition, ratings impact our ability to attract investment capital on favorable terms. If our financial strength ratings are reduced from their current levels by A.M. Best, Moody's, S&P or Fitch, our cost of borrowing would likely increase, our sales and earnings could decrease and our results of operations and financial condition could be materially adversely affected.

Contracts representing approximately 18% of Assurant Solutions' net earned premiums and fee income for the year ended December 31, 2003 contain provisions requiring the applicable subsidiaries to maintain minimum A.M. Best financial strength ratings ranging from A or better to B or better, depending on the contract. Our clients may terminate these contracts if the subsidiaries' ratings fall below these minimum acceptable levels. Under our ten-year marketing agreement with SCI, American Memorial Life Insurance Company (AMLIC), one of our subsidiaries in the Assurant PreNeed segment, is required to maintain an A.M. Best financial strength rating of B or better throughout the term of the agreement. If AMLIC fails to maintain this rating for a period of 180 days, SCI may terminate the agreement. In our Assurant Health and

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Assurant Employee Benefits segments, we do not have any material contracts that permit termination in the case of a ratings downgrade.

Since January 1, 2000, none of the A.M. Best ratings for our domestic operating insurance subsidiaries has been downgraded. On September 25, 2003, the Moody's financial strength rating for Fortis Benefits Insurance Company, one of our domestic operating insurance subsidiaries, was downgraded from A1 ( Good ) to A2 ( Good ) and the financial strength rating for John Alden Life Insurance Company, another domestic operating insurance subsidiary, was downgraded from A2 ( Good ) to A3 ( Good ) in contemplation of the fact that we would no longer be wholly owned by Fortis after our initial public offering. In addition, on May 2, 2003, Moody's downgraded the insurance financial strength rating of Fortis Benefits Insurance Company from Aa3 ( Excellent ) to A1 ( Good ) corresponding to the downgrading of Fortis. These recent downgrades did not have a quantifiable impact on the business of these subsidiaries primarily because our operating insurance companies rely solely on the ratings of A.M. Best for the marketing and sale of their products. S&P re-instituted its rating of our domestic operating insurance subsidiaries as of December 8, 2003 and as of such date rates seven of our domestic operating insurance subsidiaries.

### **The failure to effectively maintain and modernize our information systems could adversely affect our business.**

Our business is dependent upon our ability to keep up to date with technological advances. This is particularly important in Assurant Solutions, where our systems, including our ability to keep our systems fully integrated with those of our clients, are critical to the operation of our business. Our failure to update our systems to reflect technological advancements or to protect our systems may adversely affect our relationships and ability to do business with our clients.

During the year ended December 31, 2003, we spent approximately \$90 million in Assurant Solutions, \$55 million in Assurant Health, \$43 million in Assurant Employee Benefits and \$4 million in Assurant PreNeed to maintain, upgrade and consolidate our information systems. In 2004, we plan to spend for these purposes approximately \$124 million in Assurant Solutions, \$73 million in Assurant Health, \$53 million in Assurant Employee Benefits and \$5 million in Assurant PreNeed.

In addition, our business depends significantly on effective information systems, and we have many different information systems for our various businesses. We must commit significant resources to maintain and enhance our existing information systems and develop new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards and changing customer preferences. As a result of our acquisition activities, we have acquired additional information systems. Our failure to maintain effective and efficient information systems, or our failure to efficiently and effectively consolidate our information systems to eliminate redundant or obsolete applications, could have a material adverse effect on our results of operations and financial condition. If we do not maintain adequate systems we could experience adverse consequences, including:

inadequate information on which to base pricing, underwriting and reserving decisions;

the loss of existing customers;

difficulty in attracting new customers;

customer, provider and agent disputes;

regulatory problems, such as failure to meet prompt payment obligations;

litigation exposure; or

increases in administrative expenses.

Our management information, internal control and financial reporting systems may need further enhancements and development to satisfy the financial and other reporting requirements of being a public company.

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**Failure to protect our clients' confidential information and privacy could result in the loss of customers, reduction to our profitability and/ or subject us to fines and penalties.**

A number of our businesses are subject to privacy regulations and to confidentiality obligations. For example, the collection and use of patient data in our Assurant Health segment is the subject of national and state legislation, including the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and certain of the activities conducted by our Assurant Solutions segment are subject to the privacy regulations of the Gramm-Leach-Bliley Act. We also have contractual obligations to protect certain confidential information we obtain from our existing vendors and clients. These obligations generally include protecting such confidential information in the same manner and to the same extent as we protect our own confidential information. The actions we take to protect such confidential information vary by business segment and may include among other things:

- training and educating our employees regarding our obligations relating to confidential information;
- actively monitoring our record retention plans and any changes in state or federal privacy and compliance requirements;
- drafting appropriate contractual provisions into any contract that raises proprietary and confidentiality issues;
- maintaining secure storage facilities for tangible records; and
- limiting access to electronic information and maintaining a clean desk policy aimed at safeguarding certain current information.

In addition, we must develop, implement and maintain a comprehensive written information security program with appropriate administrative, technical and physical safeguards to protect such confidential information. If we do not properly comply with privacy regulations and protect confidential information we could experience adverse consequences, including regulatory problems, loss of reputation and client litigation.

See Risks Related to Our Industry Cost of compliance with privacy laws could adversely affect our business and results of operations.

**We may not find suitable acquisition candidates or new insurance ventures and even if we do, we may not successfully integrate any such acquired companies or successfully invest in such ventures.**

From time to time, we evaluate possible acquisition transactions and the start-up of complementary businesses, and at any given time, we may be engaged in discussions with respect to possible acquisitions and new ventures. While our business model is not dependent upon acquisitions or new insurance ventures, the time frame for achieving or further improving upon our desired market positions can be significantly shortened through opportune acquisitions or new insurance ventures. Historically, acquisitions and new insurance ventures have played a significant role in achieving desired market positions in some, but not all, of our businesses. We cannot assure you that we will be able to identify suitable acquisition transactions or insurance ventures, that such transactions will be financed and completed on acceptable terms or that our future acquisitions or ventures will be successful. The process of integrating any companies we do acquire or investing in new ventures could have a material adverse effect on our results of operations and financial condition.

In addition, implementation of an acquisition strategy entails a number of risks, including among other things:

- inaccurate assessment of undisclosed liabilities;
- difficulties in realizing projected efficiencies, synergies and cost savings;
- failure to achieve anticipated revenues, earnings or cash flow; and
- increase in our indebtedness and a limitation in our ability to access additional capital when needed.

Our failure to adequately address these acquisition risks could materially adversely affect our results of operations and financial condition. Although we believe that most of our acquisitions have been successful and



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have not had a material adverse impact on our financial condition, we did recognize a goodwill impairment of \$1,261 million in 2002 related to an earlier acquisition.

**The inability of our subsidiaries to pay dividends to us in sufficient amounts could harm our ability to meet our obligations, including our obligations to make payments on the notes.**

As a holding company whose principal assets are the capital stock of our subsidiaries, we rely primarily on dividends and other statutorily permissible payments from our subsidiaries to meet our obligations for payment of interest and principal on outstanding debt obligations, including the notes offered pursuant to this prospectus, dividends to stockholders and corporate expenses. The ability of our subsidiaries to pay dividends and to make such other payments in the future will depend on their statutory surplus, future statutory earnings and regulatory restrictions. Except to the extent that we are a creditor with recognized claims against our subsidiaries, claims of the subsidiaries' creditors, including policyholders, have priority with respect to the assets and earnings of the subsidiaries over the claims of our creditors. If any of our subsidiaries should become insolvent, liquidate or otherwise reorganize, our creditors and stockholders will have no right to proceed against the assets of that subsidiary or to cause the liquidation, bankruptcy or winding-up of the subsidiary under applicable liquidation, bankruptcy or winding-up laws. The applicable insurance laws of the jurisdiction where each of our insurance subsidiaries is domiciled would govern any proceedings relating to that subsidiary. The insurance authority of that jurisdiction would act as a liquidator or rehabilitator for the subsidiary. Both creditors and policyholders of the subsidiary would be entitled to payment in full from the subsidiary's assets before we, as a stockholder, would be entitled to receive any distribution from the subsidiary.

The payment of dividends to us by any of our operating subsidiaries in excess of a certain amount (i.e., extraordinary dividends) must be approved by the subsidiary's domiciliary state department of insurance. Ordinary dividends, for which no regulatory approval is generally required, are limited to amounts determined by formula, which varies by state. The formula for the majority of the states in which our subsidiaries are domiciled is the lesser of (i) 10% of the statutory surplus as of the end of the prior year or (ii) the prior year's statutory net income. In the remaining states in which our subsidiaries are domiciled the formula is the greater amount of clauses (i) and (ii). Some states, however, have an additional stipulation that dividends may only be paid out of earned surplus. In addition, as part of the regulatory approval process for the acquisition of American Bankers Insurance Group (ABIG) in 1999, we entered into an agreement with the Florida Insurance Department pursuant to which, until August of 2004, two of our subsidiaries have agreed to limit the amount of ordinary dividends they would pay to us to an amount no greater than 50% of the amount otherwise permitted under Florida law. Likewise, one of our subsidiaries, First Fortis Life Insurance Company (which entity's name will be changed subsequent to our initial public offering), entered into an agreement with the New York Insurance Department as part of the regulatory approval process for the merger of Bankers American Life Assurance Company into First Fortis Life Insurance Company in 2001 pursuant to which it has agreed not to pay any ordinary dividends to us until fiscal year 2004. See Regulation United States State Regulation Insurance Regulation Concerning Dividends. If insurance regulators determine that payment of an ordinary dividend or any other payments by our insurance subsidiaries to us (such as payments under a tax sharing agreement or payments for employee or other services) would be adverse to policyholders or creditors, the regulators may block such payments that would otherwise be permitted without prior approval. No assurance can be given that there will not be further regulatory actions restricting the ability of our insurance subsidiaries to pay dividends. Based on the dividend restrictions under applicable laws and regulations, the maximum amount of dividends that our subsidiaries could pay to us in 2004 without regulatory approval was approximately \$302 million, of which approximately \$5.5 million was paid as of April 1, 2004. We expect that as a result of, among other things, statutory accounting for our sold businesses, the maximum amount of dividends our subsidiaries will be able to pay to us will be significantly lower in 2004. If the ability of insurance subsidiaries to pay dividends or make other payments to us is materially restricted by regulatory requirements, it could adversely affect our ability to service our debt, including the notes, and pay our other corporate expenses.

Our \$500 million senior revolving credit facility dated as of January 30, 2004 and our Series B and Series C Preferred Stock also contain limitations on our ability to pay dividends.



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***Risks Related to Our Industry***

**We face significant competitive pressures in our businesses, which may reduce premium rates and prevent us from pricing our products at rates that will allow us to be profitable.**

In each of our lines of business, we compete with other insurance companies or service providers, depending on the line and product, although we have no single competitor who competes against us in all of the business lines in which we operate. Assurant Solutions has numerous competitors in its product lines, but we believe no other company participates in all of the same lines or offers comprehensive capabilities. Competitors include insurance companies and financial institutions. In Assurant Health, we believe the market is characterized by many competitors, and our main competitors include health insurance companies and the Blue Cross/ Blue Shield plans in the states in which we write business. In Assurant Employee Benefits, commercial competitors include benefits and life insurance companies as well as not-for-profit Delta Dental plans. In Assurant PreNeed, our main competitors are two pre-need life insurance companies with nationwide representation, Forethought Financial Services and Homesteaders Life Company, and several small regional insurers. While we are among the largest competitors in terms of market share in many of our business lines, in some cases there are one or more major market players in a particular line of business.

Competition in our businesses is based on many factors, including quality of service, product features, price, scope of distribution, scale, financial strength ratings and name recognition. We compete, and will continue to compete, for customers and distributors with many insurance companies and other financial services companies. We compete not only for business and individual customers, employer and other group customers, but also for agents and distribution relationships. Some of our competitors may offer a broader array of products than our specific subsidiaries with which they compete in particular markets, may have a greater diversity of distribution resources, may have better brand recognition, may from time to time have more competitive pricing, may have lower cost structures or, with respect to insurers, may have higher financial strength or claims paying ratings. Some may also have greater financial resources with which to compete. As a result of judicial developments and changes enacted by the Office of the Comptroller of the Currency, financial institutions are now able to offer a substitute product similar to credit insurance as part of their basic loan agreement with customers without being subject to insurance regulations. Credit insurance is insurance issued to cover the life, unemployment or disability of a debtor or borrower for an outstanding loan. Also, as a result of the Gramm-Leach-Bliley Act, which was enacted in November 1999, financial institutions are now able to affiliate with other insurance companies to offer services similar to our own. This has resulted in new competitors with significant financial resources entering some of our markets. Moreover, some of our competitors may have a lower target for returns on capital allocated to their business than we do, which may lead them to price their products and services lower than we do. In addition, from time to time, companies enter and exit the markets in which we operate, thereby increasing competition at times when there are new entrants. For example, several large insurance companies have recently entered the market for individual health insurance products. We may lose business to competitors offering competitive products at lower prices, or for other reasons, which could materially adversely affect our results of operations and financial condition.

In certain markets, we compete with organizations that have a substantial market share. In addition, with regard to Assurant Health, organizations with sizable market share or provider-owned plans may be able to obtain favorable financial arrangements from health care providers that are not available to us. Without our own similar arrangements, we may not be able to compete effectively in such markets.

New competition could also cause the supply of insurance to change, which could affect our ability to price our products at attractive rates and thereby adversely affect our underwriting results. Although there are some impediments facing potential competitors who wish to enter the markets we serve, the entry of new competitors into our markets can occur, affording our customers significant flexibility in moving to other insurance providers.

**The insurance industry is cyclical, which may impact our results.**

The insurance industry is cyclical. Although no two cycles are the same, insurance industry cycles have typically lasted for periods ranging from two to six years. The segments of the insurance markets in which we

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operate tend not to be correlated to each other, with each segment having its own cyclical nature. Periods of intense price competition due to excessive underwriting capacity, periods when shortages of underwriting capacity permit more favorable rate levels, consequent fluctuations in underwriting results and the occurrence of other losses characterize the conditions in these markets. Historically, insurers have experienced significant fluctuations in operating results due to volatile and sometimes unpredictable developments, many of which are beyond the direct control of the insurer, including competition, frequency of occurrence or severity of catastrophic events, levels of capacity, general economic conditions and other factors. This may cause a decline in revenue at times in the cycle if we choose not to reduce our product prices in order to maintain our market position, because of the adverse effect on profitability of such a price reduction. We can be expected therefore to experience the effects of such cyclical nature and changes in customer expectations of appropriate premium levels, the frequency or severity of claims or other loss events or other factors affecting the insurance industry that generally could have a material adverse effect on our results of operations and financial condition.

**The insurance and related businesses in which we operate may be subject to periodic negative publicity, which may negatively impact our financial results.**

The nature of the market for the insurance and related products and services we provide is that we interface with and distribute our products and services ultimately to individual consumers. There may be a perception that these purchasers may be unsophisticated and in need of consumer protection. Accordingly, from time to time, consumer advocate groups or the media may focus attention on our products and services, thereby subjecting our industries to periodic negative publicity. We may also be negatively impacted if another company in one of our industries engages in practices resulting in increased public attention to our businesses. Negative publicity may result in increased regulation and legislative scrutiny of industry practices as well as increased litigation, which may further increase our costs of doing business and adversely affect our profitability by impeding our ability to market our products and services, requiring us to change our products or services or increasing the regulatory burdens under which we operate.

**Our business is subject to risks related to litigation and regulatory actions.**

In addition to the occasional employment-related litigation to which all businesses are subject, we are a defendant in actions arising out of, and are involved in various regulatory investigations and examinations relating to, our insurance and other related business operations. We may from time to time be subject to a variety of legal and regulatory actions relating to our current and past business operations, including, but not limited to:

- disputes over coverage or claims adjudication;
- disputes regarding sales practices, disclosures, premium refunds, licensing, regulatory compliance and compensation arrangements;
- disputes with our agents, producers or network providers over compensation and termination of contracts and related claims;
- disputes concerning past premiums charged by companies acquired by us for coverage that may have been based on factors such as race;
- disputes relating to customers regarding the ratio of premiums to benefits in our various business segments;
- disputes alleging packaging of credit insurance products with other products provided by financial institutions;
- disputes relating to certain excess of loss programs in the London market;
- disputes with taxing authorities regarding our tax liabilities; and
- disputes relating to certain businesses acquired or disposed of by us.

In addition, plaintiffs continue to bring new types of legal claims against insurance and related companies. Current and future court decisions and legislative activity may increase our exposure to these types of claims.

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Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant damage award or a judicial ruling that was otherwise detrimental, could have a material adverse effect on our results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult to obtain. We cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on our businesses. In addition, if we were to experience difficulties with our relationship with a regulatory body in a given jurisdiction, it could have a material adverse effect on our ability to do business in that jurisdiction. See Business Legal Proceedings.

**We are subject to extensive governmental regulation, which increases our costs and could restrict the conduct of our business.**

Our operating subsidiaries are subject to extensive regulation and supervision in the jurisdictions in which they do business. Such regulation is generally designed to protect the interests of policyholders, as opposed to stockholders and other investors. To that end, the laws of the various states establish insurance departments with broad powers with respect to such things as:

- licensing companies to transact business;
- authorizing lines of business;
- mandating capital and surplus requirements;
- regulating underwriting limitations;
- imposing dividend limitations;
- regulating changes in control;
- licensing agents and distributors of insurance products;
- placing limitations on the minimum and maximum size of life insurance contracts;
- restricting companies' ability to enter and exit markets;
- admitting statutory assets;
- mandating certain insurance benefits;
- restricting companies' ability to terminate or cancel coverage;
- requiring companies to provide certain types of coverage;
- regulating premium rates, including the ability to increase premium rates;
- approving policy forms;
- regulating trade and claims practices;
- imposing privacy requirements;
- establishing reserve requirements and solvency standards;
- restricting certain transactions between affiliates;

regulating the content of disclosures to debtors in the credit insurance area;

regulating the type, amounts and valuation of investments;

mandating assessments or other surcharges for guaranty funds;

regulating market conduct and sales practices of insurers and agents; and

restricting contact with consumers, such as the recently created national do not call list, and imposing consumer protection measures.

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Assurant Health is also required by some jurisdictions to provide coverage to persons who would not otherwise be considered eligible by insurers. Each of these jurisdictions dictates the types of insurance and the level of coverage that must be provided to such involuntary risks. Our share of these involuntary risks is mandatory and generally a function of our respective share of the voluntary market by line of insurance in each jurisdiction. Assurant Health is exposed to some risk of losses in connection with mandated participation in such schemes in those jurisdictions in which they are still effective. In addition, HIPAA imposed insurance reform provisions as well as requirements relating to the privacy of individuals. HIPAA requires certain guaranteed issuance and renewability of health insurance coverage for individuals and small groups (generally 50 or fewer employees) and limits exclusions based on pre-existing conditions. Most of the insurance reform provisions of HIPAA became effective for plan years beginning July 1, 1997. See also Risks Related to Our Industry Costs of compliance with privacy laws could adversely affect our business and results of operations.

If regulatory requirements impede our ability to raise premium rates, utilize new policy forms or terminate, deny or cancel coverage in any of our businesses, our results of operations and financial condition could be materially adversely affected. The capacity for an insurance company's growth in premiums is in part a function of its statutory surplus. Maintaining appropriate levels of statutory surplus, as measured by statutory accounting practices and procedures, is considered important by insurance regulatory authorities and the private agencies that rate insurers' claims-paying abilities and financial strength. Failure to maintain certain levels of statutory surplus could result in increased regulatory scrutiny and enforcement, action by regulatory authorities or a downgrade by rating agencies.

We may be unable to maintain all required licenses and approvals and our business may not fully comply with the wide variety of applicable laws and regulations or the relevant authority's interpretation of the laws and regulations. Also, some regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or monetarily penalize us. That type of action could materially adversely affect our results of operations and financial condition. See Regulation.

**Changes in regulation may reduce our profitability and limit our growth.**

Legislation or other regulatory reform that increases the regulatory requirements imposed on us or that changes the way we are able to do business may significantly harm our business or results of operations in the future. For example, some states have imposed new time limits for the payment of uncontested covered claims and require health care and dental service plans to pay interest on uncontested claims not paid promptly within the required time period. Some states have also granted their insurance regulatory agencies additional authority to impose monetary penalties and other sanctions on health and dental plans engaging in certain unfair payment practices. If we were to be unable for any reason to comply with these requirements, it could result in substantial costs to us and may materially adversely affect our results of operations and financial condition.

Legislative or regulatory changes that could significantly harm us and our subsidiaries include, but are not limited to:

- legislation that holds insurance companies or managed care companies liable for adverse consequences of medical or dental decisions;
- limitations on premium levels or the ability to raise premiums on existing policies;
- increases in minimum capital, reserves and other financial viability requirements;
- impositions of fines, taxes or other penalties for improper licensing, the failure to promptly pay claims, however defined, or other regulatory violations;
- increased licensing requirements;
- prohibitions or limitations on provider financial incentives and provider risk-sharing arrangements;

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imposition of more stringent standards of review of our coverage determinations;

new benefit mandates;

increased regulation relating to the use of associations and trusts in the sale of individual health insurance;

limitations on our ability to build appropriate provider networks and, as a result, manage health care and utilization due to any willing provider legislation, which requires us to take any provider willing to accept our reimbursement;

limitations on the ability to manage health care and utilization due to direct access laws that allow insureds to seek services directly from specialty medical providers without referral by a primary care provider; and

restriction of solicitation of pre-funded funeral insurance consumers by funeral board laws.

State legislatures regularly enact laws that alter and, in many cases, increase state authority to regulate insurance companies and insurance holding companies. Further, state insurance regulators regularly reinterpret existing laws and regulations and the National Association of Insurance Commissioners (NAIC) regularly undertakes regulatory projects, all of which can affect our operations. In recent years, the state insurance regulatory framework has come under increased federal scrutiny and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the NAIC and state insurance regulators are re-examining existing laws and regulations, specifically focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws.

Although the U.S. federal government does not directly regulate the insurance business, changes in federal legislation and administrative policies in several areas, including changes in the Gramm-Leach-Bliley Act, financial services regulation and federal taxation, could significantly harm the insurance industry and us. Federal legislation and administrative policies in areas such as employee benefit plan regulation, financial services regulation and federal taxation can reduce our profitability. In addition, state legislatures and the U.S. Congress continue to focus on health care issues. The U.S. Congress is considering Patients Bill of Rights legislation, which, if adopted, would permit health plans to be sued in state court for coverage determinations and could fundamentally alter the treatment of coverage decisions under Employee Retirement Income Security Act of 1974, as amended (ERISA). There recently have been legislative attempts to limit ERISA's preemptive effect on state laws. For example, the U.S. Congress has, from time to time, considered legislation relating to changes in ERISA to permit application of state law remedies, such as consequential and punitive damages, in lawsuits for wrongful denial of benefits, which, if adopted, could increase our liability for damages in future litigation. Additionally, new interpretations of existing laws and the passage of new legislation may harm our ability to sell new policies and increase our claims exposure on policies we issued previously.

A number of legislative proposals have been made at the federal level over the past several years that could impose added burdens on Assurant Health. These proposals would, among other things, mandate benefits with respect to certain diseases or medical procedures, require plans to offer an independent external review of certain coverage decisions and establish a national health insurance program. Any of these proposals, if implemented, could adversely affect our results of operations or financial condition. Federal changes in Medicare and Medicaid that reduce provider reimbursements could have negative implications for the private sector due to cost shifting. When the government reduces reimbursement rates for Medicare and Medicaid, providers often try to recover shortfalls by raising the prices charged to privately insured customers. State small employer group and individual health insurance market reforms to increase access and affordability could also reduce profitability by precluding us from appropriately pricing for risk in our individual and small employer group health insurance policies.

In addition, the U.S. Congress and some federal agencies from time to time investigate the current condition of insurance regulation in the United States to determine whether to impose federal regulation or to allow an optional federal incorporation, similar to banks. Bills have been introduced in the U.S. Congress from

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time to time that would provide for a federal scheme of chartering insurance companies or an optional federal charter for insurance companies. Meanwhile, the federal government has granted charters in years past to insurance-like organizations that are not subject to state insurance regulations, such as risk retention groups. See Regulation United States Federal Regulation Legislative Developments. Thus, it is hard to predict the likelihood of a federal chartering scheme and its impact on the industry or on us.

We cannot predict with certainty the effect any proposed or future legislation, regulations or NAIC initiatives may have on the conduct of our business. In addition, the insurance laws or regulations adopted or amended from time to time may be more restrictive or may result in materially higher costs than current requirements. See Regulation.

**Costs of compliance with privacy laws could adversely affect our business and results of operations.**

The privacy of individuals has been the subject of recent state and federal legislation. State privacy laws, particularly those with opt-in clauses, can affect the pre-funded funeral insurance business. These laws make it harder to share information for marketing purposes, such as generating new sales leads. Similarly, the recently created do not call list would restrict our ability to contact customers and, in Assurant Solutions, has lowered our expectations for growth in our direct-marketed consumer credit insurance products in the United States.

HIPAA and the implementing regulations that have thus far been adopted impose new obligations for issuers of health and dental insurance coverage and health and dental benefit plan sponsors. HIPAA also establishes new requirements for maintaining the confidentiality and security of individually identifiable health information and new standards for electronic health care transactions. The Department of Health and Human Services promulgated final HIPAA regulations in 2002. The privacy regulations required compliance by April 2003, the electronic transactions regulations by October 2003 and the security regulations by April 2005. As have other entities in the health care industry, we have incurred substantial costs in meeting the requirements of these HIPAA regulations and expect to continue to incur costs to achieve and to maintain compliance. We have been working diligently to comply with these regulations in the time periods required. However, there can be no assurances that we will achieve such compliance with all of the required transactions or that other entities with which we interact will take appropriate action to meet the compliance deadlines. Moreover, as a consequence of these new standards for electronic transactions, we may see an increase in the number of health care transactions that are submitted to us in paper format, which could increase our costs to process medical claims.

HIPAA is far-reaching and complex and proper interpretation and practice under the law continue to evolve. Consequently, our efforts to measure, monitor and adjust our business practices to comply with HIPAA are ongoing. Failure to comply could result in regulatory fines and civil lawsuits. Knowing and intentional violations of these rules may also result in federal criminal penalties.

In addition, the Gramm-Leach-Bliley Act requires that we deliver a notice regarding our privacy policy both at the delivery of the insurance policy and annually thereafter. Certain exceptions are allowed for sharing of information under joint marketing agreements. However, certain state laws may require individuals to opt in to information sharing instead of being immediately included. This could significantly increase costs of doing business. Additionally, when final U.S. Treasury Department regulations are promulgated in connection with the USA PATRIOT Act, we will likely have to expend additional resources to tailor our existing anti-fraud efforts to the new rules.

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### ***Risks Related to Our Relationship with and Separation from Fortis***

**Fortis will continue to have representation on our board of directors and influence our affairs for as long as it remains a significant stockholder.**

As of April 15, 2004, Fortis, through Fortis Insurance N.V., its wholly owned subsidiary, owned approximately 35% of our outstanding common stock. For as long as Fortis continues to own shares of common stock representing more than one-third of the voting power of our outstanding capital stock entitled to vote on the matter, it will be able to veto corporate actions requiring a two-thirds vote of our stockholders. Fortis may have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests.

Concurrently with the consummation of our initial public offering, we entered into a shareholders' agreement with Fortis pursuant to which Fortis has the right to nominate designees to our board of directors and, subject to limited exceptions, our board of directors will nominate those designees as follows: (i) so long as Fortis owns less than 50% but at least 10% of our outstanding common stock, two designees (out of a maximum of 12 directors); and (ii) so long as Fortis owns less than 10% but at least 5% of our outstanding common stock, one designee. Currently, Fortis has two designees on our board of directors.

In addition, although Fortis has advised us that it intends to divest all of its shares of our common stock over a period of time, Fortis is under no obligation to do so. Subject to the terms of a lock-up agreement described below Fortis has the sole discretion to determine the timing of any such divestiture. See *Certain Relationships and Related Transactions* for additional information on lock-up agreements and related party transactions between our Company and Fortis.

In addition, for so long as Fortis continues to own less than 50% but at least 10% of our outstanding common stock, the following will also apply:

Our board of directors shall consist of no more than 12 directors (including at least seven independent directors);

Fortis will have the right to nominate two designees to our board of directors (out of a maximum of 12 directors), and the shareholders agreement and our by-laws provide that, subject to limited exceptions, our board of directors will nominate those designees; and

Pursuant to the shareholders' agreement, the following significant corporate actions may only be taken with the approval of Fortis Insurance, as shareholder:

any recapitalization, reclassification, spin-off or combination of any of our securities or any of those of our principal subsidiaries;

or

any liquidation, dissolution, winding up or commencement of voluntary bankruptcy, insolvency, liquidation or similar proceedings with respect to us or any of our subsidiaries.

**Because Fortis continues to have a significant ownership interest in our company, conflicts of interest between Fortis and us could be resolved in a manner unfavorable to us.**

Various conflicts of interest between Fortis and us could arise which may be resolved in a manner that is unfavorable to us, including, but not limited to, the following areas:

*Stock Ownership.* So long as Fortis owns shares of common stock representing more than one-third of the voting power of our outstanding capital stock entitled to vote on the matter, Fortis will be able to veto mergers and the sale of all or substantially all of our consolidated assets. With certain limited exceptions, Fortis, exercising its rights as a stockholder, can veto a merger or sale without regard to the interests of the other stockholders. In addition, the shareholders' agreement will also provide that for as long as Fortis owns at least 10% of our outstanding common stock, the following actions may only be taken with the approval of Fortis Insurance N.V., as stockholder:

any recapitalization, reclassification or combination of any of our securities or any of those of our principal subsidiaries (other than certain activities between wholly owned subsidiaries); and



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any liquidation, dissolution, winding up or commencement of voluntary bankruptcy or insolvency proceedings with respect to us or our principal subsidiaries.

For more information regarding the shareholders' agreement, see "Certain Relationships and Related Transactions - Shareholders' Agreement."

*Cross-Directorships.* Michel Baise and Gilbert Mittler are directors of our Company who are also currently directors and/or officers of Fortis. Service as both a director of our Company and as a director or officer of Fortis or ownership interests of directors or officers of our Company in the stock of Fortis could create or appear to create potential conflicts of interest when directors and officers are faced with decisions that could have different implications for the two companies. Our directors who are also directors or officers of Fortis will have obligations to both companies and may have conflicts of interest with respect to matters potentially or actually involving or affecting us. For example, these decisions could relate to:

disagreement over the desirability of a potential acquisition or disposition opportunity; or

corporate finance decisions.

*Allocation of Business Opportunities.* Although we do not expect Fortis to compete with us in the near term, there may be business opportunities that are suitable for both Fortis and us. Fortis designees may direct such opportunities to Fortis and we may have no recourse against the Fortis designees or Fortis. We have no formal mechanisms for allocating business opportunities.

**The loss of the Fortis name in Assurant Health, Assurant Employee Benefits and Assurant PreNeed may affect our profitability.**

In connection with our separation from Fortis, we have changed our name and the names of our business units to Assurant, Inc. and other Assurant names and have launched a re-branding initiative pursuant to which we will change our brand name and most of the trademarks and trade names under which we conduct our business. The transition to our new name in each of our business segments and subsidiaries will occur rapidly in the case of some products and business segments and over specified periods in the case of other products and business segments. Under the terms of a license from Fortis, we have only a limited amount of time to continue to use the Fortis name. Assurant Health, Assurant Employee Benefits and Assurant PreNeed have expended substantial resources to establish the Fortis name and reputation in the health, employee benefits and pre-funded funeral insurance marketplace, particularly among brokers and consultants acting as advisors in the health and benefits market and with funeral directors in the pre-funded funeral market. The impact of the change in trademarks and trade names and other changes (including, without limitation, the name change) on our business and operations cannot be fully predicted, and the lack of an established brand image for the Assurant name in the health, benefits and pre-funded funeral insurance marketplace may cause a disruption in sales and persistency and thus affect profitability. Any such disruption could also cause rating agencies to lower our financial strength and other ratings in the future. In addition, the costs of effecting the name change and branding initiative will be substantial and are currently estimated to be approximately \$10 million. In certain states we may be required to notify policyholders of our name change and in certain instances new certificates may need to be issued. This might result in increased lapses of our insurance policies.

**Because Fortis operates U.S. branch offices, we are subject to regulation and oversight by the Federal Reserve Board under the U.S. Bank Holding Company Act (BHCA).**

Fortis Bank SA/ NV (Fortis Bank), which is a subsidiary of Fortis, obtained approval in 2002 from state banking authorities and the Federal Reserve Board to establish branch offices in Connecticut and New York. By virtue of the opening of these offices, the U.S. operations of Fortis, including our operations, became subject to the nonbanking prohibitions of Section 4 of the BHCA. In order to continue to operate its U.S. nonbanking operations, including the insurance activities conducted by our subsidiaries, Fortis notified the Federal Reserve Board of its election to be a financial holding company for purposes of the BHCA and the Federal Reserve Board's implementing regulations in Regulation Y. Pursuant to Fortis' status as a financial holding company, Fortis and its subsidiaries, including our subsidiaries, are permitted to engage in nonbanking activities in the United States that are financial in nature or incidental to a financial activity as defined in Section 4(k) of the BHCA and in

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Regulation Y. In particular, Fortis status as a financial holding company permits Fortis to engage in the United States in both banking activities through the U.S. branches of Fortis Bank and insurance activities through our subsidiaries. Activities that are financial in nature include, among other things:

insuring, guaranteeing or indemnifying against loss, harm, damage, illness, disability or death, or providing and issuing annuities; and

acting as principal, agent or broker for purposes of the foregoing.

Fortis will continue to qualify as a financial holding company so long as Fortis Bank remains well capitalized and well managed as those terms are defined in Regulation Y. Generally, Fortis Bank will be considered well capitalized if it maintains tier 1 and total risk-based capital ratios of at least 6% and 10%, respectively, and will be considered well managed if it has received at least a satisfactory composite rating of its U.S. branch operations at its most recent examination. As a general matter, as long as Fortis controls us within the meaning of the BHCA or owns more than 5% of any class of our voting shares, the BHCA does not permit us to engage in nonfinancial activities such as manufacturing, distribution of goods and real estate development except to the extent that another exemption under the BHCA, such as the merchant banking exemption, is available. If the Federal Reserve Board were to determine that any of our existing activities were not insurance activities or not otherwise financial in nature or not incidental to such activities, or if Fortis lost and was unable to regain its financial holding company status, we could be required to restructure our operations or divest some of these operations, which could result in increased costs and reduced profitability.

The Federal Reserve Board oversees all of Fortis direct and indirect U.S. subsidiaries for compliance with the BHCA, including our Company. Our Company will be considered a subsidiary of Fortis so long as Fortis owns 25% or more of any class of our voting shares or otherwise controls us within the meaning of the BHCA. In addition, even if we are not a subsidiary of Fortis, the nonfinancial activities restrictions of the BHCA and Regulation Y (discussed above) would continue to apply so long as Fortis owned more than 5% of any class of our voting shares and another BHCA exemption, such as the merchant banking exemption, is not available.

### ***Risks Related to the Notes***

**In the event of our liquidation or reorganization, holders of the notes will generally have a junior position to claims of creditors of our subsidiaries.**

The notes are obligations exclusively of Assurant, Inc. and not of its subsidiaries. We are a holding company and conduct substantially all our operations through our subsidiaries. Our ability to meet our obligations under the notes will be dependent on the earnings and cash flows of our subsidiaries and the ability of our subsidiaries to pay dividends or to advance or repay funds to us. Our right to participate as an equity holder in any distribution of assets of any subsidiary (and thus the ability of holders of the notes to benefit as creditors of our company from such distribution) is junior to creditors of that subsidiary, including policyholders, trade creditors, debt holders, taxing authorities, guarantee holders and preferred stockholders. As a result, claims of holders of the notes will be effectively subordinated to the existing and future policyholders and other creditors of our subsidiaries. In the event of our liquidation or reorganization, holders of the notes will generally have a junior position to claims of creditors of our subsidiaries. The notes will not be secured, and thus the notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing that indebtedness. On a pro forma basis as of December 31, 2003, after giving effect to the offering of the restricted notes and discounts we would have had \$972 million of outstanding senior indebtedness, none of which would have been secured indebtedness, not including the debt of our subsidiaries. Also on a pro forma basis as of December 31, 2003, after giving effect to the offering of the restricted notes, our subsidiaries would have had no debt (other than outstanding letters of credit of \$108 million).

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**The notes will not contain certain restrictive covenants.**

The notes will not contain some covenants that could protect holders of the notes from certain transactions. For example, the indenture will not contain covenants that:

limit our ability or any subsidiary's ability to incur additional indebtedness;

limit our ability to pay dividends or make distributions on, or redeem or repurchase our equity securities;

prevent us from selling or otherwise transferring any shares of, or securities convertible into, or options, warrants or rights to purchase shares of, voting stock of any of our subsidiaries, or prohibit any subsidiary from issuing any shares of, securities convertible into, or options, warrants or rights to purchase shares of, voting stock of such subsidiary (so long as in the case of our Principal Subsidiaries as defined in Description of Notes Covenants it is for fair market value); or

give holders of the notes the right to require us to repurchase their notes in the event of a change of control of our company due to a takeover, recapitalization or similar restructuring, or for any other reason.

***Risk Factors Relating to the Exchange Offer***

**If you fail to tender your restricted notes in the exchange offer, then the liquidity of the market for your restricted notes may be substantially limited.**

We expect that a substantial portion of the restricted notes will be tendered and accepted in the exchange offer and exchanged for exchange notes. When the exchange offer is completed, the amount of restricted notes will be reduced by the amount of exchange notes that we will issue. Accordingly, we expect that the liquidity of the market for the restricted notes after the exchange offer is completed will be substantially limited.

**If you fail to exchange your restricted notes in the exchange offer, your restricted notes will continue to be subject to transfer restrictions.**

If you do not exchange your restricted notes for exchange notes in the exchange offer your restricted notes will continue to be subject to the transfer restrictions outlined in the offering memorandum distributed in connection with the offering of the restricted notes. In general, the restricted notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreements, we do not intend to register resales of the restricted notes under the Securities Act.

**You must comply with the exchange offer procedures in order to receive freely tradable exchange notes.**

Delivery of the exchange notes in exchange for the restricted notes tendered and accepted for exchange pursuant to the exchange offer will be made only after timely receipt by the exchange agent of the following:

Certificates for the restricted notes or a book-entry confirmation of a book-entry transfer of the restricted notes into the exchange agent's account at DTC, as a depository, including an agent's message, as defined in this prospectus, if the tendering holder does not deliver a letter of transmittal;

A completed and signed letter of transmittal, or facsimile copy, with any required signature guarantees, or, in the case of a book-entry transfer, an agent's message in place of the letter of transmittal; and

Any other documents required by the letter of transmittal.

Therefore, holders of the restricted notes who would like to tender the restricted notes in exchange for exchange notes should be sure to allow enough time for the restricted notes to be delivered on time. We are not required to notify you of defects or irregularities in tenders of restricted notes for exchange. Restricted notes that are not tendered or that are tendered but we do not accept for exchange will, following consummation of the exchange offer, continue to be subject to the existing transfer restrictions under the Securities Act and will no longer have the registration and other rights under the registration rights agreement. See The Exchange Offer Procedures for Tendering Restricted Notes in this prospectus.



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**FORWARD-LOOKING STATEMENTS**

Some of the statements under Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this prospectus 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, anticipates or the negative version of those words or other comparable words. Any forward-looking statements contained in this prospectus 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, the initial purchasers 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 these statements. We believe that these factors include but are not limited to those described under Risk Factors. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. 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 prospectus 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. You should specifically consider the factors identified in this prospectus that could cause actual results to differ before participating in the exchange offer.

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**USE OF PROCEEDS**

We will not receive any cash proceeds from the issuance of the exchange notes. In consideration for issuing the exchange notes as contemplated in this prospectus, we will receive in exchange a like principal amount of restricted notes, the terms of which are identical in all material respects to the exchange notes, except that the exchange notes will be freely transferable by holders and are not subject to any requirement regarding registration under the Securities Act of 1933. The restricted notes surrendered in exchange for the exchange notes will be retired and cancelled and cannot be reissued. Accordingly, issuance of the exchange notes will not result in any change in our capitalization.

We received net proceeds of approximately \$963.8 million from the offering of the restricted notes, after deducting discounts, commissions and estimated fees and expenses. We used the net proceeds from the issuance of the notes to repay \$963.8 of our outstanding indebtedness under the \$1,100 million senior bridge credit facility, which would have matured in December 2004. We repaid \$75.5 million of our outstanding indebtedness under the senior bridge credit facility simultaneously with the closing of our initial public offering, using the proceeds of a cash contribution from Fortis Insurance N.V. and we repaid \$49.5 million of outstanding indebtedness under the senior bridge credit facility simultaneously with the closing of our initial public offering using cash on hand. The \$11.2 million of indebtedness remaining outstanding under the senior bridge credit facility was repaid with cash on hand following the consummation of the offering of the restricted notes. We entered into the senior bridge credit facility in connection with the repayments and redemptions made in connection with our initial public offering described under Corporate Structure and Reorganization and for general corporate purposes. Interest under the senior bridge credit facility was based on, at our option, LIBOR plus a spread of 0.400% per annum or the higher of the prime rate or 0.5% over the federal funds rate per annum. As of the date of the consummation of the offering of the restricted notes, the interest rate applicable to the senior bridge credit facility was 1.50% per annum.

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**CORPORATE STRUCTURE AND REORGANIZATION**

Assurant, Inc. was incorporated in October 2003. On February 4, 2004, we effectuated the merger of Fortis, Inc. with and into Assurant, Inc. for the purpose of redomesticating Fortis, Inc. in Delaware. Assurant, Inc. is domiciled in Delaware and is the successor to the business, operations and obligations of Fortis, Inc. On that same date, we priced our initial public offering pursuant to which Fortis Insurance N.V. sold 92,000,000 shares of our Common Stock. Our initial public offering closed on February 10, 2004.

See Capitalization.

In connection with our separation from Fortis, we have changed our name and are in the process of changing the names of our business segments and operating subsidiaries to include the name Assurant, and we will cease using the Fortis name after a transition period. Under the terms of a license from Fortis, we have only a limited amount of time to continue to use the Fortis name. We have launched a re-branding initiative pursuant to which we have changed our brand name and most of our trademarks and trade names under which we conduct our business.

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**CAPITALIZATION**

The following table sets forth our consolidated capitalization as of December 31, 2003, on an actual basis and as adjusted to give effect to the following events as if such events had occurred on December 31, 2003:

the repayment of \$650 million aggregate principal amount of indebtedness under a senior bridge credit facility with a portion of the proceeds of a \$725.5 million capital contribution received by us from Fortis Insurance N.V. simultaneously with the closing of our initial public offering;

the repayment of \$75.5 million of an additional senior bridge credit facility with \$75.5 million of the \$725.5 million capital contribution referred to above and with \$49.5 million in cash;

the issuance of \$975 million of restricted notes and the use of the proceeds from the issuance to repay a portion of the outstanding indebtedness under the additional senior bridge credit facility and the subsequent repayment by us of the remaining indebtedness under such senior bridge credit facility using approximately \$60.8 million in cash on hand;

the issuance by us of 32,976,854 shares of Common Stock of Assurant, Inc. to Fortis Insurance N.V. simultaneously with the closing of our initial public offering in exchange for the \$725.5 million capital contribution referred to above based on the public offering price of our common stock;

the redemption by us of the outstanding \$196.2 million aggregate liquidation amount of 1997 capital securities at 100% of the liquidation amount thereof plus (i) accrued interest to the date of redemption and (ii) premium of approximately \$67 million in January 2004;

the consummation of the merger which occurred on February 4, 2004, including the exchange in the merger of each share of Class A Common Stock of Fortis, Inc. having a par value of \$0.10 per share for 10.75882039 shares of Common Stock of Assurant, Inc. having a par value of \$0.01 per share;

the automatic conversion of the shares of Class B Common Stock and Class C Common Stock issued in the merger in accordance with their terms simultaneously with the closing of our initial public offering into an aggregate of 25,841,418 shares of Common Stock of Assurant, Inc. for all of the outstanding Class B Common Stock and Class C Common Stock based on the public offering price of our common stock; and

the issuance by us of an aggregate of 68,976 shares of Common Stock of Assurant, Inc. to certain of our officers pursuant to stock grants made on the closing of our initial public offering and to certain of our directors pursuant to stock grants made on February 4, 2004.

We did not and will not receive any proceeds from the sale of shares in our initial public offering by Fortis, which closed on February 10, 2004.



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You should read this table in conjunction with Selected Consolidated Financial Information and Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes that are included elsewhere in this prospectus. See also Certain Relationships and Related Transactions and Description of Other Indebtedness.

	As of December 31, 2003	
	Actual	As Adjusted
	(unaudited) (in thousands, except share amounts and per share data)	
Cash and cash equivalents	\$ 958,197	\$ 634,514
<b>Debt Outstanding:</b>		
5.625% notes due 2014	\$	\$ 499,435
6.750% notes due 2034		472,103
Senior bridge credit facility	1,750,000	
Total long-term senior debt	1,750,000	971,538
<b>Mandatorily redeemable preferred securities of subsidiary trusts(1):</b>		
1997 capital securities	196,224	
Total mandatorily redeemable preferred securities of subsidiary trusts	196,224	
<b>Mandatorily redeemable preferred stock, par value \$1.00 per share, actual and as adjusted</b> (20,000,000 shares authorized, actual and 200,000,000 shares authorized, as adjusted; 19,160 shares of Series B Preferred Stock and 5,000 shares of Series C Preferred Stock issued and outstanding, actual and as adjusted)	24,160	24,160
<b>Stockholders' Equity:</b>		
Common stock, par value \$0.01 per share, 800,000,000 shares of common stock authorized: 109,222,276 shares issued and outstanding, actual and 142,268,106, as adjusted)	1,092	1,423
Additional paid-in capital	2,063,763	2,790,449
Retained earnings	248,721	205,344(2)
Accumulated other comprehensive income	318,527	361,766
Total stockholders' equity	2,632,103	3,314,226
<b>Total Capitalization</b>	<b>\$5,560,684</b>	<b>\$4,944,794</b>

- (1) The proceeds from the sale of preferred securities by each of the subsidiary trusts were used by the applicable trusts to purchase our subordinated debentures, which are eliminated upon consolidation. See Certain Relationships and Related Transactions.
- (2) Decrease in retained earnings is attributable to after-tax premiums paid associated with the early redemption of mandatorily redeemable preferred securities of subsidiary trusts.



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**SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The following table sets forth our selected historical consolidated financial information for the periods ended and as of the dates indicated. Assurant, Inc., a Delaware corporation, was formed solely for the purpose of the redomestication of Fortis, Inc., which was organized as a Nevada corporation and of which 100% of the outstanding common stock was indirectly owned by Fortis N.V. and Fortis SA/NV prior to our initial public offering. On February 4, 2004, we effectuated a merger of Fortis, Inc. with and into Assurant, Inc. for the purpose of redomesticating Fortis, Inc. in Delaware. Assurant, Inc. is domiciled in Delaware and is the successor to the business, operations and obligations of Fortis, Inc.

The selected consolidated statement of operations data for each of the five years in the period ended December 31, 2003 and the selected consolidated balance sheet data at December 31, 2003, 2002, 2001, 2000 and 1999 are derived from the audited consolidated financial statements of Assurant, Inc. and its subsidiaries, which have been prepared in accordance with GAAP. The audited consolidated financial statements of Assurant, Inc. and its subsidiaries for the three years in the period ended December 31, 2003 and at December 31, 2003 and 2002 have been included elsewhere in this prospectus. These historical results are not necessarily indicative of expected results for any future period. You should read the following selected consolidated financial information together with the other information contained in this prospectus, including Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this prospectus.

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As of and for the Years Ended December 31,

	2003	2002	2001	2000	1999
(in thousands, except share amounts and per share data)					
<b>Consolidated Statement of Operations Data:</b>					
<b>Revenues</b>					
Net earned premiums and other considerations	\$ 6,156,772	\$ 5,681,596	\$ 5,242,185	\$ 5,144,375	\$ 4,508,795
Net investment income	607,313	631,828	711,782	690,732	590,487
Net realized gains (losses) on investments	1,868	(118,372)	(119,016)	(44,977)	13,616
Amortization of deferred gain on disposal of businesses	68,277	79,801	68,296	10,284	
Gain on disposal of businesses		10,672	61,688	11,994	
Fees and other income	231,983	246,675	221,939	399,571	357,878
<b>Total revenues</b>	<b>7,066,213</b>	<b>6,532,200</b>	<b>6,186,874</b>	<b>6,211,979</b>	<b>5,470,776</b>
<b>Benefits, losses and expenses</b>					
Policyholder benefits	3,657,763	3,435,175	3,240,091	3,208,054	3,061,488
Amortization of deferred acquisition costs and value of business acquired	909,149	876,185	875,703	766,904	494,000
Underwriting, general and administrative expenses	1,919,989	1,732,047	1,619,765	1,801,196	1,649,811
Amortization of goodwill			113,300	106,773	57,717
Interest expense	1,175		14,001	24,726	39,893
Distributions on preferred securities of subsidiary trusts	112,958	118,396	118,370	110,142	53,824
Interest premium on redemption of preferred securities of subsidiary trusts	205,822				
<b>Total benefits, losses and expenses</b>	<b>6,806,856</b>	<b>6,161,803</b>	<b>5,981,230</b>	<b>6,017,795</b>	<b>5,356,733</b>
Income before income taxes and cumulative effect of change in accounting principle	259,357	370,397	205,644	194,184	114,043
Income taxes	73,705	110,657	107,591	104,500	57,657
<b>Net income before cumulative effect of change in accounting principle</b>	<b>\$ 185,652</b>	<b>\$ 259,740</b>	<b>\$ 98,053</b>	<b>\$ 89,684</b>	<b>\$ 56,386</b>
Cumulative effect of change in accounting principle		(1,260,939)			
<b>Net income (loss)</b>	<b>\$ 185,652</b>	<b>\$ (1,001,199)</b>	<b>\$ 98,053</b>	<b>\$ 89,684</b>	<b>\$ 56,386</b>
<b>Per Share Data:</b>					
Net income before cumulative effect of change in accounting principle	\$ 1.70	\$ 2.38	\$ 0.90	\$ 0.85	\$ 0.85
Net income (loss) per share	\$ 1.70	\$ (9.17)	\$ 0.90	\$ 0.85	\$ 0.85

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Weighted average of basic and diluted shares of common stock outstanding(1)	109,222,276	109,222,276	109,222,276	104,915,373	66,122,451
Pro forma common stock outstanding(2)	142,268,106				
Pro forma net income per share(2)	\$ 1.30	\$	\$	\$	\$
Dividends per share:					
Common Stock	\$ 1.66	\$ 0.38	\$ 1.00	\$ 0.20	\$

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As of and for the Years Ended December 31,

	2003	2002	2001	2000	1999
(in thousands, except share amounts and per share data)					
<b>Selected Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents and investments	\$ 11,881,802	\$ 10,694,772	\$ 10,319,117	\$ 10,750,554	\$ 10,110,136
Total assets	23,728,319	22,279,055	24,559,157	24,115,139	22,216,730
Policy liabilities(3)	12,881,796	12,388,623	12,064,643	11,534,891	10,336,265
Debt	1,750,000			238,983	1,007,243
Mandatorily redeemable preferred securities of subsidiary trusts(4)	196,224	1,446,074	1,446,074	1,449,738	889,850
Mandatorily redeemable preferred stock	24,160	24,660	25,160	25,160	22,160
Total shareholder s equity	2,632,103	2,555,059	3,452,405	3,367,768	3,164,297
<b>Per Share Data:</b>					
Total book value per share(5)	\$ 24.10	\$ 23.39	\$ 31.61	\$ 32.10	\$ 47.86

(1) Reflects only the following events as if such events had occurred at the beginning of the period indicated:

the exchange of each existing share of Class A Common Stock of Fortis, Inc. for 10.75882039 shares of Common Stock of Assurant, Inc. in the merger for the purpose of redomestication; and

the automatic conversion of the shares of Class B Common Stock and Class C Common Stock issued in the merger in accordance with their terms simultaneously with the closing of our initial public offering into an aggregate of 25,841,418 shares of Common Stock of Assurant, Inc. for all of the outstanding shares of Class B Common Stock and Class C Common Stock based on the public offering price of our Common Stock.

(2) Reflects only the following events as if such events had occurred at the beginning of the period indicated:

the exchange of each share of Fortis, Inc. Class A Common Stock for 10.75882039 shares of Common Stock of Assurant, Inc., which totaled 83,380,858 shares and the conversion of the Class B Common Stock and Class C Common Stock outstanding into an aggregate of 25,841,418 shares of Common Stock of Assurant, Inc., resulting in 109,222,276 shares of Common Stock outstanding; and

the issuance of 32,976,854 shares of Common Stock to Fortis Insurance N.V. in exchange for a \$725.5 million capital contribution and the issuance of 68,976 shares to certain officers of Assurant, Inc., resulting in 142,268,106 shares of Common Stock outstanding as of February 5, 2004.

(3) Policy liabilities include future policy benefits and expenses, unearned premiums and claims and benefits payable.

(4) The proceeds from the sale of each of these securities were used by the applicable subsidiary trusts to purchase our subordinated debentures, which are eliminated upon consolidation. See Certain Relationships and Related Transactions.

(5) Based on total stockholders equity divided by weighted average of basic and diluted shares of common stock outstanding.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

For the Year Ended December 31,

<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
2.89x	3.57x	2.30x	2.15x	1.90x

For the purpose of calculating the ratio of earnings to fixed charges, earnings consist of income (loss) before cumulative effect of change in accounting principle and before income taxes plus fixed charges. Fixed charges consist of the sum of: (a) interest expensed, (b) the portion of operating rental expenses which management believes is representative of the interest component of rental expense, (c) dividends on participating policies, (d) interest credited on investment-type contracts and (e) distributions on mandatorily redeemable preferred securities of subsidiary trusts.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and accompanying notes which appear elsewhere in this prospectus. It contains forward-looking statements that involve risks and uncertainties. Please see **Forward-Looking Statements** for more information. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly under the headings **Risk Factors** and **Forward-Looking Statements**.

**General**

We pursue a differentiated strategy of building leading positions in specialized market segments for insurance products and related services in North America and selected other markets. We provide:

- creditor-placed homeowners insurance;
- manufactured housing homeowners insurance;
- debt protection administration;
- credit insurance;
- warranties and extended service contracts;
- individual health and small employer group health insurance;
- group dental insurance;
- group disability insurance;
- group life insurance; and
- pre-funded funeral insurance.

The markets we target are generally complex, have a relatively limited number of competitors and, we believe, offer attractive profit opportunities.

We report our results through five segments: Assurant Solutions, Assurant Health, Assurant Employee Benefits, Assurant PreNeed and Corporate and Other. The Corporate and Other segment includes activities of the holding company, financing expenses, net realized gains (losses) on investments, interest income earned from short-term investments held and interest income from excess surplus of insurance subsidiaries not allocated to other segments. The Corporate and Other segment also includes the results of operations of FFG from January 1, 2001 to March 31, 2001 (the period prior to its disposition). The Corporate and Other segment also includes amortization of deferred gains associated with the portions of the sales of FFG and LTC. FFG and LTC were sold through reinsurance agreements as described below.

**Critical Factors Affecting Results**

Our profitability depends on the adequacy of our product pricing, underwriting and the accuracy of our methodology for the establishment of reserves for future policyholder benefits and claims, returns on invested assets and our ability to manage our expenses. As such, factors affecting these items may have a material adverse effect on our results of operations or financial condition.



***Revenues***

We derive our revenues primarily from the sale of our insurance policies and, to a lesser extent, fee income by providing administrative services to certain clients. Sales of insurance policies are recognized in revenue as earned premiums while sales of administrative services are recognized as fee income. In late 2000, the majority of our credit insurance clients began a transition from the purchase of our credit insurance products from which we earned premium revenue to debt protection administration programs, from which we earn fee income. Debt protection administration programs include services for non-insurance products that cancel or defer the required monthly payment on outstanding loans when covered events occur.

Our premium and fee income is supplemented by income earned from our investment portfolio. We recognize revenue from interest payments, dividends and sales of investments. Our investment portfolio is

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currently primarily invested in fixed maturity securities. Both investment income and realized capital gains on these investments can be significantly impacted by changes in interest rates.

Interest rate volatility can reduce unrealized gains or create unrealized losses in our portfolios. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Fluctuations in interest rates affect our returns on, and the market value of, fixed maturity and short-term investments.

The fair market value of the fixed maturity securities in our portfolio and the investment income from these securities fluctuate depending on general economic and market conditions. The fair market value generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us from future investments in fixed maturity securities will generally increase or decrease with interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. In periods of declining interest rates, mortgage prepayments generally increase and mortgage-backed securities, commercial mortgage obligations and bonds in our investment portfolio are more likely to be prepaid or redeemed as borrowers seek to borrow at lower interest rates, and we may be required to reinvest those funds in lower interest-bearing investments.

In addition, Assurant PreNeed generally writes whole life insurance policies with increasing death benefits and obtains much of its profits through interest rate spreads. Interest rate spreads refer to the difference between the death benefit growth rates on pre-funded funeral insurance policies and the investment returns generated on the assets we hold related to those policies. As of December 31, 2003, approximately 81% of Assurant PreNeed's in force insurance policy reserves related to policies that provide for death benefit growth, some of which provide for minimum death benefit growth pegged to changes in the Consumer Price Index. In extended periods of declining interest rates or high inflation, there may be compression in the spread between Assurant PreNeed's death benefit growth rates and its investment earnings. As a result, declining interest rates or high inflation rates may have a material adverse effect on our results of operations and our overall financial condition.

### ***Expenses***

Our expenses primarily consist of policyholder benefits, underwriting, general and administrative expenses, and distributions on preferred securities of subsidiary trusts.

Selling, underwriting and general expenses consist primarily of commissions, premium taxes, licenses, fees, amortization of deferred acquisition costs (DAC) and value of businesses acquired (VOBA) and general operating expenses. For a description of DAC and VOBA, see Notes 2, 18 and 19 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

Our profitability depends in large part on accurately predicting benefits, claims and other costs, including medical and dental costs. It also depends on our ability to manage future benefit and other costs through product design, underwriting criteria, utilization review or claims management and, in health and dental insurance, negotiation of favorable provider contracts. Changes in the composition of the kinds of work available in the economy, market conditions and numerous other factors may also materially adversely affect our ability to manage claim costs. As a result of one or more of these factors or other factors, claims could substantially exceed our expectations, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, in December 2003 and January 2004, we redeemed all of the mandatorily redeemable preferred securities of subsidiary trusts for a redemption price equal to their aggregate liquidation amount plus accrued and unpaid interest to the date of redemption and aggregate premium of approximately \$206 million, all of which was expensed in the fourth quarter of 2003. We entered into the senior bridge credit facilities described under "liquidity and capital resources" in connection with these redemptions.

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### ***Regulation***

Legislation or other regulatory reform that increases the regulatory requirements imposed on us or that changes the way we are able to do business may significantly harm our business or results of operations in the future. For example, some states have imposed new time limits for the payment of uncontested covered claims and require health care and dental service plans to pay interest on uncontested claims not paid promptly within the required time period. Some states have also granted their insurance regulatory agencies additional authority to impose monetary penalties and other sanctions on health and dental plans engaging in certain unfair payment practices. If we were to be unable for any reason to comply with these requirements, it could result in substantial costs to us and may materially adversely affect our results of operations and financial condition. In addition, in some of our businesses, such as individual medical products, our revenues and net income will be affected by our ability to get regulatory approval for rate increases. Where rate increases are unacceptable to us, we could withdraw from a state but may for a limited period of time be required to participate in state sponsored risk pools for our former insureds who cannot get replacement policies.

For other factors affecting our results of operations or financial condition, see Risk Factors.

### ***Acquisitions and Dispositions of Businesses***

Our results of operations were affected by the following transactions:

On October 10, 2002, we sold the Peer Review and Analysis division (PRA) of CORE, Inc. (CORE) to MCMC, LLC, an independent provider of medical analysis services. No gain or loss was recognized on the sale of PRA.

On June 28, 2002, we sold our 50% ownership in Neighborhood Health Partnership (NHP) to NHP Holding LLC. We recorded pre-tax gains on sale of \$11 million, which was included in the Corporate and Other segment.

On December 31, 2001, we acquired Protective Life Corporation's Dental Benefits Division (DBD), including the acquisition through reinsurance of Protective's indemnity dental, life and disability business and its prepaid dental subsidiaries. Total revenues of \$305 million and income after tax of \$15 million were generated by the DBD operations for the year ended December 31, 2002. DBD is included in Assurant Employee Benefits.

On July 12, 2001, we acquired CORE, a national provider of employee absence management services. Total revenues of \$31 million and income after tax of \$0.2 million were generated by the CORE operations from July 12, 2001 through December 31, 2001, as compared to total revenues of \$66 million and income after tax of \$3 million in 2002. CORE is included in Assurant Employee Benefits.

On April 2, 2001, we sold our FFG business to The Hartford primarily through a reinsurance arrangement. Total revenues of \$146 million and income after tax of \$8 million were generated by the FFG operations for the three months ended March 31, 2001, compared to total revenues of \$669 million and income after tax of \$65 million during 2000. FFG included certain individual life insurance policies, investment-type annuity contracts and mutual fund operations. The sale of the mutual fund operations resulted in \$62 million of pre-tax gains. The sale via reinsurance of the individual life insurance policies and investment-type annuity contracts resulted in \$558 million of pre-tax gains, which were deferred upon closing and are being amortized over the remaining life of the contracts. All activities related to FFG are included in the Corporate and Other segment. See Critical Accounting Policies.

Prior to April 2, 2001, FFG had issued variable insurance products that are required to be registered as securities under the Securities Act. Variable insurance refers to an investment-oriented life insurance policy that offers fixed premiums and a minimum death benefit as well as providing a return linked to an underlying portfolio of securities. These registered insurance contracts, which we no longer sell, have been 100% reinsured with The Hartford through modified coinsurance agreements. The Hartford administers this closed block of business pursuant to a third party administration agreement. Since this block of business was sold through modified coinsurance agreements, separate account assets and separate account liabilities associated with

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these products continue to be reflected in our financial statements. See the line items entitled *Assets held in separate accounts* and *Liabilities related to separate accounts* in our consolidated balance sheets. The liabilities created by these variable insurance policies are tied to the performance of underlying investments held in separate accounts of the insurance company that originally issued such policies. While we own the separate account assets, the laws governing separate accounts provide that the income, gains and losses from assets in the separate account are credited to or charged against the separate account without regard to other income, gains or losses of the insurer. Further, the laws provide that the separate account will not be charged with liabilities arising out of any other business the insurer may conduct. The result of this structure is that the assets held in the separate account correspond to and are equal to the liabilities created by the variable insurance contracts. At December 31, 2003, we had separate account assets and liabilities of \$3,805 million compared to \$4,809 million on April 2, 2001, the date of the FFG sale.

On October 1, 2000, we acquired AMLIC, a provider of pre-funded funeral insurance products, from SCI. Total revenues of \$75 million and income after tax of \$5 million were generated by AMLIC from October 1, 2000 through December 31, 2000, as compared to total revenues of \$353 million and income after tax of \$30 million in 2001. AMLIC is included in Assurant PreNeed.

On May 11, 2000, we sold Associated California State Insurance Agencies, Inc. and Ardiel Insurance Services, Inc. (together, ACSIA), our wholly owned subsidiaries, to Conseco Corporation. ACSIA is a distributor of long-term care insurance. We recorded \$12 million of pre-tax gains on the sale. Total revenues of \$7 million and a loss after tax of \$1 million were generated by ACSIA from January 1, 2000 through May 11, 2000. All activities related to ACSIA are included in the Corporate and Other segment.

On March 1, 2000, we sold our LTC insurance business to John Hancock. The business was sold via a 100% coinsurance agreement whereby we ceded to John Hancock substantially all assets and liabilities related to our LTC business. The transaction resulted in after-tax deferred gains of approximately \$34 million, which is being amortized over the remaining lives of the related contracts. Total revenues of \$25 million and income after tax of \$5 million were generated by our LTC business from January 1, 2000 through March 1, 2000. All activities related to LTC are included in the Corporate and Other segment.

Comparing our results from period to period requires taking into account these acquisitions and dispositions. For a more detailed description of these acquisitions and dispositions, see Notes 3 and 4 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

## **Critical Accounting Policies**

There are certain accounting policies that we consider to be critical due to the amount of judgment and uncertainty inherent in the application of those policies. In calculating financial statement estimates, the use of different assumptions could produce materially different estimates. In addition, if factors such as those described above or in *Risk Factors* cause actual events to differ from the assumptions used in applying the accounting policies and calculating financial estimates, there could be a material adverse effect on our results of operations, financial condition and liquidity.

We believe the following critical accounting policies require significant estimates which, if such estimates are not materially correct, could affect the preparation of our consolidated financial statements.

### ***Premiums***

#### *Short Duration Contracts*

Our short duration contracts are those on which we recognize revenue on a pro rata basis over the contract term. Our short duration contracts primarily include:

group term life;

group disability medical and dental;

property and warranty;

credit life and disability;

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extended service contracts; and

individual medical issued after 2002 in most jurisdictions.

*Long Duration Contracts*

Currently, our long duration contracts being sold are pre-funded funeral life insurance and investment-type annuities. For pre-funded funeral life insurance policies, any excess of the gross premium over the net premium is deferred and is recognized in income in a constant relationship with the insurance in force. For pre-funded funeral investment-type annuity contracts, revenues consist of charges assessed against policy balances.

For individual medical contracts sold prior to 2003 and currently in a limited number of jurisdictions and traditional life insurance contracts sold by Assurant PreNeed that are no longer offered, revenue is recognized when due from policyholders.

For universal life insurance and investment-type annuity contracts sold by Assurant Solutions that are no longer offered, revenues consist of charges assessed against policy balances.

Premiums for LTC insurance and traditional life insurance contracts within FFG are recognized as revenue when due from the policyholder. For universal life insurance and investment-type annuity contracts within FFG, revenues consist of charges assessed against policy balances. For the FFG and LTC businesses previously sold, all revenue is ceded to The Hartford and John Hancock, respectively.

*Reinsurance Assumed*

Reinsurance premiums assumed are calculated based upon payments received from ceding companies together with accrual estimates which are based on both payments received and in force policy information received from ceding companies. Any subsequent differences arising on such estimates are recorded in the period in which they are determined.

*Fee Income*

We primarily derive income from fees received from providing administration services. Fee income is earned when services are performed.

*Reserves*

Reserves are established according to generally accepted actuarial principles and are based on a number of factors. These factors include experience derived from historical claim payments and actuarial assumptions to arrive at loss development factors. Such assumptions and other factors include trends, the incidence of incurred claims, the extent to which all claims have been reported and internal claims processing charges. The process used in computing reserves cannot be exact, particularly for liability coverages, since actual claim costs are dependent upon such complex factors as inflation, changes in doctrines of legal liability and damage awards. The methods of making such estimates and establishing the related liabilities are periodically reviewed and updated.

Reserves, whether calculated under GAAP or statutory accounting principles, do not represent an exact calculation of exposure, but instead represent our best estimates, generally involving actuarial projections at a given time, of what we expect the ultimate settlement and administration of a claim or group of claims will cost based on our assessment of facts and circumstances then known. The adequacy of reserves will be impacted by future trends in claims severity, frequency, judicial theories of liability and other factors. These variables are affected by both external and internal events, such as:

changes in the economic cycle;

changes in the social perception of the value of work;

emerging medical perceptions regarding physiological or psychological causes of disability;

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emerging health issues and new methods of treatment or accommodation;

inflation;

judicial trends;

legislative changes; and

claims handling procedures.

Many of these items are not directly quantifiable, particularly on a prospective basis. Reserve estimates are refined as experience develops. Adjustments to reserves, both positive and negative, are reflected in the statement of operations of the period in which such estimates are updated. Because establishment of reserves is an inherently uncertain process involving estimates of future losses, there can be no certainty that ultimate losses will not exceed existing claims reserves. Future loss development could require reserves to be increased, which could have a material adverse effect on our earnings in the periods in which such increases are made.

*Short Duration Contracts*

For short duration contracts, claims and benefits payable reserves are recorded when insured events occur. The liability is based on the expected ultimate cost of settling the claims. The claims and benefits payable reserves include (1) case base reserves for known but unpaid claims as of the balance sheet date; (2) incurred but not reported (IBNR) reserves for claims where the insured event has occurred but has not been reported to us as of the balance sheet date; and (3) loss adjustment expense reserves for the expected handling costs of settling the claims.

For group disability and group life, the case base reserves and the IBNR are recorded at an amount equal to the net present value of the expected claims future payments. Group long-term disability and group term life waiver of premium reserves are discounted to the valuation date at the valuation interest rate. The valuation interest rate is determined by taking into consideration actual and expected earned rates on our asset portfolio, with adjustments for investment expenses and provisions for adverse deviation. In July 2003, the valuation interest rate was lowered to 5.25% from 6% for group long-term disability and raised to 5.25% from 3.5% for group life waiver of premium reserves. Group long-term disability and group life waiver of premium reserves are discounted because the payment pattern and ultimate cost are fixed and determinable on an individual claim basis.

Unearned premium reserves are maintained for the portion of the premiums on short duration contracts that is related to the unexpired period of the policy.

We have exposure to asbestos, environmental and other general liability claims arising from our participation in various reinsurance pools from 1971 through 1983. This exposure arose from a short duration contract that we discontinued writing many years ago. We carried case reserves for these liabilities as recommended by the various pool managers and bulk reserves for IBNR of \$37 million (before reinsurance) and \$36 million (after reinsurance) in the aggregate at December 31, 2003. Any estimation of these liabilities is subject to greater than normal variation and uncertainty due to the general lack of sufficiently detailed data, reporting delays and absence of a generally accepted actuarial methodology for those exposures. There are significant unresolved industry legal issues, including such items as whether coverage exists and what constitutes an occurrence. In addition, the determination of ultimate damages and the final allocation of losses to financially responsible parties are highly uncertain. However, based on information currently available, and after consideration of the reserves reflected in the financial statements, we believe that any changes in reserve estimates for these claims are not reasonably likely to be material. Asbestos, environmental and other general liability claim payments, net of reinsurance recoveries, were \$2.9 million, \$1.4 million and \$2.2 million for the years ended December 31, 2003, 2002 and 2001, respectively.

One of our subsidiaries, American Reliable Insurance Company (ARIC), participated in certain excess of loss reinsurance programs in the London market and, as a result, reinsured certain personal accident, ransom and kidnap insurance risks from 1995 to 1997. ARIC and a foreign affiliate ceded a portion of these risks to other reinsurers (retrocessionaires). ARIC ceased reinsuring such business in 1997. However, certain

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risks continued beyond 1997 due to the nature of the reinsurance contracts written. ARIC and some of the other reinsurers involved in the programs are seeking to avoid certain treaties on various grounds, including material misrepresentation and non-disclosure by the ceding companies and intermediaries involved in the programs. Similarly, some of the retrocessionaires are seeking avoidance of certain treaties with ARIC and the other reinsurers and some reinsureds are seeking collection of disputed balances under some of the treaties. The disputes generally involve multiple layers of reinsurance, and allegations that the reinsurance programs involved interrelated claims spirals devised to disproportionately pass claims losses to higher-level reinsurance layers. Many of the companies involved in these programs, including ARIC, are currently involved in negotiations, arbitration and/or litigation between multiple layers of retrocessionaires, reinsurers, ceding companies and intermediaries, including brokers, in an effort to resolve these disputes. Many of those disputes relating to the 1995 program year, including those involving ARIC, were settled on December 3, 2003. Loss accruals previously established relating to the 1995 program year were adequate. However, our exposure under the 1995 program year was less significant than the exposure remaining under the 1996 and 1997 program years. We believe, based on information currently available, that the amounts accrued for currently outstanding disputes are adequate. The inherent uncertainty of arbitrations and lawsuits, including the uncertainty of estimating whether any settlements we may enter into in the future would be on favorable terms, makes it difficult to predict the outcomes with certainty.

*Long Duration Contracts*

Future policy benefits and expense reserves on LTC, life insurance policies and annuity contracts that are no longer offered, individual medical contracts sold prior to 2003 or issued in the state of Minnesota and the traditional life insurance contracts within FFG are recorded at the present value of future benefits to be paid to policyholders and related expenses less the present value of the future net premiums. These amounts are estimated and include assumptions as to the expected investment yield, inflation, mortality, morbidity and withdrawal rates as well as other assumptions that are based on our experience. These assumptions reflect anticipated trends and include provisions for possible unfavorable deviations.

Future policy benefits and expense reserves for pre-funded funeral investment-type annuities, universal life insurance policies and investment-type annuity contracts that are no longer offered, and the variable life insurance and investment-type annuity contracts in FFG consist of policy account balances before applicable surrender charges and certain deferred policy initiation fees that are being recognized in income over the terms of the policies. Policy benefits charged to expense during the period include amounts paid in excess of policy account balances and interest credited to policy account balances.

Future policy benefits and expense reserves for pre-funded funeral life insurance contracts are recorded as the present value of future benefits to policyholders and related expenses less the present value of future net premiums. Reserve assumptions are selected using best estimates for expected investment yield, inflation, mortality and withdrawal rates. These assumptions reflect current trends, are based on Company experience and include provision for possible unfavorable deviation. An unearned premium reserve is also recorded for these contracts which represents the balance of the excess of gross premiums over net premiums that is still to be recognized in future years' income in a constant relationship to insurance in force.

*Deferred Acquisition Costs (DAC)*

The costs of acquiring new business that vary with and are primarily related to the production of new business have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits. Acquisition costs primarily consist of commissions, policy issuance expenses, premium tax and certain direct marketing expenses.

A premium deficiency is recognized immediately by a charge to the statement of operations as a reduction of DAC to the extent that future policy premiums, including anticipation of interest income, are not adequate to recover all DAC and related claims, benefits and expenses. If the premium deficiency is greater than unamortized DAC, a liability will be accrued for the excess deficiency.



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### *Short Duration Contracts*

DAC relating to property contracts, warranty and extended service contracts and single premium credit insurance contracts are amortized over the term of the contracts in relation to premiums earned.

Acquisition costs relating to monthly pay credit insurance business consist mainly of direct marketing costs and are deferred and amortized over the estimated average terms of the underlying contracts.

Acquisition costs on individual medical issued in most jurisdictions after 2002, small group medical, group term life and group disability consist primarily of commissions to agents and brokers, which are level, and compensation to representatives, which is spread out and is not front-end loaded. These costs do not vary with the production of new business. As a result, these costs are not deferred but rather are recorded in the statement of operations in the period in which they are incurred.

### *Long Duration Contracts*

Acquisition costs for pre-funded funeral life insurance policies and life insurance policies no longer offered are deferred and amortized in proportion to anticipated premiums over the premium-paying period.

For pre-funded funeral investment-type annuities and universal life insurance policies and investment-type annuity contracts that are no longer offered, DAC is amortized in proportion to the present value of estimated gross margins or profits from investment, mortality, expense margins and surrender charges over the estimated life of the policy or contract. The assumptions used for the estimates are consistent with those used in computing the policy or contract liabilities.

Acquisition costs relating to individual medical contracts issued prior to 2003 and currently in a limited number of jurisdictions are deferred and amortized over the estimated average terms of the underlying contracts. These acquisition costs relate to commissions and policy issuance expenses. Commissions represent the majority of deferred costs and result from commission schedules that pay significantly higher rates in the first year. The majority of deferred policy issuance expenses are the costs of separately underwriting each individual medical contract.

Acquisition costs on the FFG and LTC disposed businesses were written off when the businesses were sold.

### ***Investments***

We regularly monitor our investment portfolio to ensure that investments that may be other than temporarily impaired are identified in a timely fashion and properly valued and that any impairments are charged against earnings in the proper period. Our methodology to identify potential impairments requires professional judgment.

Changes in individual security values are monitored on a semi-monthly basis in order to identify potential problem credits. In addition, pursuant to our impairment process, each month the portfolio holdings are screened for securities whose market price is equal to 85% or less of their original purchase price. Management then makes their assessment as to which of these securities are other than temporarily impaired. Assessment factors include, but are not limited to, the financial condition and rating of the issuer, any collateral held and the length of time the market value of the security has been below cost. Each month the watchlist is discussed at a meeting attended by members of our investment, accounting and finance departments. Each quarter any security whose price decrease is deemed to have been other than temporarily impaired is written down to its then current market level, with the amount of the writedown reflected in our statement of operations for that quarter. Previously impaired issues are also monitored monthly, with additional writedowns taken quarterly if necessary.

Inherently, there are risks and uncertainties involved in making these judgments. Changes in circumstances and critical assumptions such as a continued weak economy, a more pronounced economic downturn or unforeseen events which affect one or more companies, industry sectors or countries could result in additional writedowns in future periods for impairments that are deemed to be other-than-temporary. See also

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Investments in Note 2 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

***Reinsurance***

Reinsurance recoverables include amounts related to paid benefits and estimated amounts related to unpaid policy and contract claims, future policyholder benefits and policyholder contract deposits. The cost of reinsurance is accounted for over the terms of the underlying reinsured policies using assumptions consistent with those used to account for the policies. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves and are reported in our consolidated balance sheets. The ceding of insurance does not discharge our primary liability to our insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

***Other Accounting Policies***

For a description of other accounting policies applicable to the periods covered by this prospectus, see Note 2 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

***New Accounting Standard***

On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (FAS 142). Upon adoption of FAS 142, we ceased amortizing goodwill. In addition, we were required to subject our goodwill to an initial impairment test. As a result of FAS 142, we are required to conduct impairment testing on an annual basis and between annual tests if an event occurs or circumstances change indicating a possible goodwill impairment. In the absence of an impairment event, our net income will be higher as a result of not having to amortize goodwill.

As a result of this initial impairment test, we recognized a non-cash goodwill impairment charge of \$1,261 million. The impairment charge was recorded as a cumulative effect of a change in accounting principle as of January 1, 2002. The impairment charge had no impact on cash flows or the statutory-basis capital and surplus of our insurance subsidiaries. We also performed a January 1, 2003 impairment test during the six months ended June 30, 2003 and concluded that goodwill was not further impaired.

See *New Accounting Pronouncements* in Note 2 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus for a description of additional new accounting standards that are applicable to us.

**Table of Contents****Results of Operations****Consolidated Overview**

The table below presents information regarding our consolidated results of operations:

	For the Year Ended December 31,		
	2003	2002	2001
	(in millions)		
<b>Revenues:</b>			
Net earned premiums and other considerations	\$ 6,157	\$ 5,681	\$ 5,242
Net investment income	607	632	712
Net realized gains (losses) on investments	2	(118)	(119)
Amortization of deferred gain on disposal of businesses	68	80	68
Gain on disposal of businesses		11	62
Fees and other income	232	246	222
	<u>7,066</u>	<u>6,532</u>	<u>6,187</u>
<b>Benefits, losses and expenses:</b>			
Policyholder benefits	(3,657)	(3,435)	(3,240)
Selling, underwriting and general expenses(1)	(2,829)	(2,609)	(2,496)
Amortization of goodwill			(113)
Interest expense	(1)		(14)
Distributions on mandatorily redeemable preferred securities of subsidiary trusts	(113)	(118)	(118)
Interest premiums on redemption of mandatorily redeemable preferred securities of subsidiary trusts	(206)		
	<u>(6,806)</u>	<u>(6,162)</u>	<u>(5,981)</u>
<b>Income before income taxes</b>	260	370	206
Income taxes	(74)	(110)	(108)
	<u>186</u>	<u>260</u>	<u>98</u>
<b>Net income before cumulative effect of change in accounting principle</b>			
	<u>186</u>	<u>260</u>	<u>98</u>
<b>Cumulative effect of change in accounting principle</b>		(1,261)	
	<u>186</u>	<u>(1,001)</u>	<u>98</u>
<b>Net income (loss)</b>	<u>\$ 186</u>	<u>\$ (1,001)</u>	<u>\$ 98</u>

(1) Includes amortization of DAC and VOBA and underwriting, general and administrative expenses.

Note: The table above includes amortization of goodwill in 2001 and the cumulative effect of change in accounting principle in 2002. These items are only included in this Consolidated Overview. As a result, the tables presented under the segment discussions do not total to the same amounts shown on this consolidated overview table. See Note 20 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

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*Year Ended December 31, 2003 Compared to December 31, 2002*

### *Total Revenues*

Total revenues increased by \$534 million, or 8%, from \$6,532 million for the year ended December 31, 2002, to \$7,066 million for the year ended December 31, 2003.

Net earned premiums and other considerations increased by \$476 million, or 8%, from \$5,681 million for the year ended December 31, 2002, to \$6,157 million for the year ended December 31, 2003. The increase in net earned premiums and other considerations is primarily due to increases of \$285 million, \$175 million, and

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\$23 million in Assurant Solutions, Assurant Health, and Assurant Employee Benefits, respectively, with an offsetting decrease of \$9 million in Assurant PreNeed. The increase in Assurant Solutions is due to growth in specialty property and consumer protection products. The increase in Assurant Health is primarily due to increases in individual health insurance business due to membership growth and premium rate increases.

Net investment income decreased by \$25 million, or 4%, from \$632 million for the year ended December 31, 2002, to \$607 million for the year ended December 31, 2003. The decrease was primarily due to a decrease in investment yields driven by the lower interest rate environment. The yield on average invested assets was 5.61% for the year ended December 31, 2003, as compared to 6.20% for the year ended December 31, 2002.

Net realized gains (losses) on investments improved by \$120 million, or 102%, from net realized losses of \$118 million for the year ended December 31, 2002, to net realized gains of \$2 million for the year ended December 31, 2003. Net realized gains (losses) on investments are comprised of both other-than-temporary impairments and realized capital gains (losses) on sales of securities. For the year ended December 31, 2003, we had other-than-temporary impairments of \$20 million as compared to \$85 million for the year ended December 31, 2002. There were no individual impairments in excess of \$10 million for the year ended December 31, 2003. Impairments on available for sale securities in excess of \$10 million for the year ended December 31, 2002, consisted of an \$18 million writedown of fixed maturity investments in NRG Energy, a \$12 million writedown of fixed maturity investments in AT&T Canada, and an \$11 million writedown of fixed maturity investments in MCI WorldCom. Excluding the effects of other-than-temporary impairments, we recorded an increase in net realized gains of \$55 million in the Corporate and Other segment.

Amortization of deferred gain on disposal of businesses decreased by \$12 million, or 15%, from \$80 million for the year ended December 31, 2002, to \$68 million for the year ended December 31, 2003. The decrease was consistent with the run-off of the businesses ceded to The Hartford and John Hancock.

Gain on disposal of businesses decreased by \$11 million, or 100%, from \$11 million for the year ended December 31, 2002 to zero for the year ended December 31, 2003. There were no disposals in 2003. On June 28, 2002, we sold our investment in NHP, which resulted in pretax gains of \$11 million.

Fees and other income decreased by \$14 million, or 6%, from \$246 million for the year ended December 31, 2002 to \$232 million for the year ended December 31, 2003. The decrease was primarily due to \$15 million of income recognized in Corporate and Other segment for the year ended December 31, 2002, associated with a settlement true-up of a 1999 sale of a small block of business to a third party and reversal of bad debt allowances due to successful collection of receivables that had been previously written off.

*Total Benefits, Losses and Expenses*

Total benefits, losses and expenses increased by \$644 million, or 10%, from \$6,162 million for the year ended December 31, 2002 to \$6,806 million for the year ended December 31, 2003.

Policyholder benefits increased by \$222 million, or 6%, from \$3,435 million for the year ended December 31, 2002, to \$3,657 million for the year ended December 31, 2003. The increase was primarily due to increases of \$144 million, \$95 million, and \$8 million in Assurant Solutions, Assurant Health and Assurant PreNeed, respectively, with an offsetting decrease of \$24 million in Assurant Employee Benefits. The increase in Assurant Solutions was primarily due to growth in specialty property products, primarily creditor-placed and voluntary homeowners insurance lines of business. The increase in Assurant Health was primarily due to the increase in individual health insurance business, which is consistent with growth in this business.

Selling, underwriting and general expenses increased by \$220 million, or 8%, from \$2,609 million for the year ended December 31, 2002, to \$2,829 million for the year ended December 31, 2003. The increase was primarily due to increases of \$141 million, \$43 million, and \$11 million in Assurant Solutions, Assurant Health and Assurant Employee Benefits, respectively. The increase in Assurant Solutions was consistent with growth in the specialty property and consumer protection products business. The increase in Assurant Health was primarily due to increases in commissions, amortization of deferred policy acquisition costs and general expenses, which was consistent with the growth in business.

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Distributions on preferred securities of subsidiary trusts decreased by \$5 million, or 4%, from \$118 million for the year ended December 31, 2002 to \$113 million for the year ended December 31, 2003. We redeemed \$1,250 million of the mandatorily redeemable preferred securities of subsidiary trusts in mid-December 2003, resulting in lower expenses. We redeemed the remaining \$196 million of mandatorily redeemable preferred securities of subsidiary trusts in early January 2004. As a result of the early extinguishment of all the mandatorily redeemable preferred securities of subsidiary trusts we incurred \$206 million in interest premiums on redemption of subsidiary trusts for the year ended December 31, 2003 compared to zero in 2002.

*Net Income*

Net income increased by \$1,187 million, or 119%, from a loss of \$1,001 million for the year ended December 31, 2002, to a profit of \$186 million for the year ended December 31, 2003.

Net income before cumulative effect of change in accounting principle for the year ended December 31, 2002 was \$260 million. When we adopted FAS 142 in 2002, we recognized a cumulative effect of change in accounting principle which resulted in an expense of \$1,261 million in 2002 as compared to zero recognized in 2003.

Income taxes decreased by \$36 million, or 33%, from \$110 million for the year ended December 31, 2002, to \$74 million for the year ended December 31, 2003. The effective tax rate for 2003 was 28.6% compared to 29.7% in 2002.

*Year Ended December 31, 2002 Compared to December 31, 2001*

*Total Revenues*

Total revenues increased by \$345 million, or 6%, from \$6,187 million in 2001 to \$6,532 million in 2002.

Net earned premiums and other considerations increased by \$439 million, or 8%, from \$5,242 million in 2001 to \$5,681 million in 2002. Excluding the effect of the various acquisitions and dispositions described above, net earned premiums and other considerations increased mainly due to strong growth in Assurant Solutions primarily as a result of growth in new business and in Assurant PreNeed primarily due to an increase in the average size of policies sold by the AMLIC division.

Net investment income decreased by \$80 million, or 11%, from \$712 million in 2001 to \$632 million in 2002. The decrease was primarily due to a decrease in achieved investment yields, driven by the lower interest rate environment and a decrease in average invested assets of \$290 million. The yield on average invested assets was 6.20% for the year ended December 31, 2002 as compared to 6.83% for the year ended December 31, 2001. This reflected lower yields on fixed maturity securities and commercial mortgages.

Net realized losses on investments decreased by \$1 million, or 1%, from \$119 million in 2001 to \$118 million in 2002. In 2002, we had other-than-temporary impairments of \$85 million, as compared to \$78 million in 2001. Impairments of available for sale securities in excess of \$10 million in 2002 consisted of an \$18 million writedown of fixed maturity investments in NRG Energy, a \$12 million writedown of fixed maturity investments in AT&T Canada and an \$11 million writedown of fixed maturity investments in MCI WorldCom. Impairments of available for sale securities in excess of \$10 million in 2001 consisted of a \$22 million writedown of fixed maturity investments in Enron Corp. (Enron).

Amortization of deferred gain on disposal of businesses increased by \$12 million, or 18%, from \$68 million in 2001 to \$80 million in 2002. The increase was primarily due to a full year of amortization of the deferred gain on the sale of FFG as compared to nine months of amortization in 2001. This deferred gain on sale is discussed in more detail under Corporate and Other below.

Gain on disposal of businesses decreased by \$51 million, or 82%, from \$62 million in 2001 to \$11 million in 2002. The \$62 million reflects the gain on the sale of FFG's mutual fund operations. The \$11 million reflected the pre-tax gain on the sale of NHP.

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Fees and other income increased by \$24 million, or 11%, from \$222 million in 2001 to \$246 million in 2002. The increase was primarily due to a full year of fee income from CORE and an increase in fee income from Assurant Solutions, mainly from their credit insurance business transitioning to debt protection administration. In late 2000, the majority of Assurant Solutions credit insurance clients began a transition from use of our credit insurance products to debt protection administration programs, from which we earn fee income rather than net earned premiums and where margins are lower than in the traditional credit insurance programs. However, because debt protection administration is not an insurance product, certain costs such as regulatory costs and cost of capital are expected to be eliminated as the transition from credit insurance to debt protection administration services continues. The fees from debt protection administration did not fully compensate for the decrease in credit insurance premiums. The increases were partially offset by a \$42 million, or 63%, decrease from the Corporate and Other segment due to the sale of FFG (partially through reinsurance), which had \$65 million of fee income (generated from mutual fund operations included in such sale) in the first quarter of 2001.

*Total Benefits, Losses and Expenses*

Total benefits, losses and expenses increased by \$181 million, or 3%, from \$5,981 million in 2001 to \$6,162 million in 2002.

Policyholder benefits increased by \$195 million, or 6%, from \$3,240 million in 2001 to \$3,435 million in 2002. The increase was primarily due to the effects of the acquisitions and dispositions described above. The increases were also partially offset by an \$84 million, or 6%, decrease from Assurant Health, primarily due to a higher mix of individual health insurance business, which generally has a lower expected loss ratio relative to small employer group business, disciplined pricing and product design changes. (Loss premiums and other considerations include the amount of net premiums allocable to the expired period of an insurance policy or policies, including fees earned on interest sensitive policies).

Selling, underwriting and general expenses increased by \$113 million, or 5%, from \$2,496 million in 2001 to \$2,609 million in 2002. Assurant Employee Benefits contributed \$106 million of this increase, primarily due to the DBD and CORE acquisitions. This increase was offset by a \$65 million decrease in the Corporate and Other segment due to the sale of FFG. Selling, underwriting and general expenses in Assurant Health increased by \$50 million, primarily due to an increase in the amortization of DAC and due to costs associated with higher employee compensation and investments in technology. Also, selling, underwriting and general expenses in Assurant PreNeed increased by \$17 million, primarily due to an increase in amortization of DAC and VOBA as a result of an increase in sales of single pay policies and increases in general expenses.

Amortization of goodwill was zero in 2002 compared to \$113 million in 2001, as a result of our adoption of FAS 142 as described above.

Interest expense decreased from \$14 million in 2001 to \$0 in 2002. In April 2001, we used a portion of the FFG sale proceeds to repay \$225 million of outstanding debt owed to Fortis Finance N.V. (Fortis Finance), a wholly owned subsidiary of Fortis.

Distributions on preferred securities of subsidiary trusts in 2002 remained unchanged from 2001 at \$118 million.

*Net Income*

Net income decreased by \$1,099 million from a profit of \$98 million in 2001 to a loss of \$1,001 million in 2002.

Income taxes increased by \$2 million, or 2%, from \$108 million in 2001 to \$110 million in 2002. The effective tax rate for 2002 was 29.7% compared to 52.4% in 2001. The change in the effective tax rate was primarily related to the elimination of amortization of goodwill in 2002.

When we adopted FAS 142 in 2002, we recognized a cumulative effect (expense) of change in accounting principle of \$1,261 million in 2002 as compared to zero recognized in 2001.

**Table of Contents***Assurant Solutions**Overview*

The table below presents information regarding Assurant Solutions segment results of operations:

	<b>For the Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	(in millions)		
<b>Revenues:</b>			
Net earned premiums and other considerations	\$ 2,362	\$ 2,077	\$ 1,906
Net investment income	187	205	218
Fees and other income	129	119	98
<b>Total revenues</b>	<b>2,678</b>	<b>2,401</b>	<b>2,222</b>
<b>Benefits, losses and expenses:</b>			
Policyholder benefits	(899)	(755)	(640)
Selling, underwriting and general expenses	(1,590)	(1,449)	(1,444)
<b>Total benefits, losses and expenses</b>	<b>(2,489)</b>	<b>(2,204)</b>	<b>(2,084)</b>
<b>Segment income before income tax</b>	<b>189</b>	<b>197</b>	<b>138</b>
Income taxes	(56)	(65)	(40)
<b>Segment income after tax</b>	<b>\$ 133</b>	<b>\$ 132</b>	<b>\$ 98</b>
<b>Net earned premiums and other considerations by major product groupings:</b>			
Specialty Property Solutions(1)	\$ 733	\$ 552	\$ 452
Consumer Protection Solutions(2)	1,629	1,525	1,454
<b>Total</b>	<b>\$ 2,362</b>	<b>\$ 2,077</b>	<b>\$ 1,906</b>

- (1) Specialty Property Solutions includes a variety of specialized property insurance programs that are coupled with differentiated administrative capabilities.
- (2) Consumer Protection Solutions includes an array of debt protection administration services, credit insurance programs and warranties and extended service contracts.

*Year Ended December 31, 2003 Compared to December 31, 2002**Total Revenues*

Total revenues increased by \$277 million, or 12%, from \$2,401 million for the year ended December 31, 2002, to \$2,678 million for the year ended December 31, 2003.

Net earned premiums and other considerations increased by \$285 million, or 14%, from \$2,077 million for the year ended December 31, 2002, to \$2,362 million for the year ended December 31, 2003. This increase was primarily due to \$180 million of additional net earned



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premiums and other considerations attributable to our special property products, which includes approximately \$133 million from our creditor-placed and voluntary homeowners insurance and manufactured housing homeowners insurance lines of business generated from new clients and increased sales growth from our existing clients. Consumer protection products also contributed \$105 million in net earned premiums and other considerations primarily from growth in our warranty and extended service contracts business.

Net investment income decreased by \$18 million, or 9%, from \$205 million for the year ended December 31, 2002, to \$187 million for the year ended December 31, 2003. The average portfolio yield dropped 62 basis points from 5.85% for the year ended December 31, 2002, to 5.23% for the year ended

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December 31, 2003 due to the lower interest rate environment. The average allocated invested assets increased by approximately 2%.

Fees and other income increased by \$10 million, or 8%, from \$119 million for the year ended December 31, 2002, to \$129 million for the year ended December 31, 2003, primarily due to the continuing transition of our credit insurance business to our debt protection administration business.

*Total Benefits, Losses and Expenses*

Total benefits, losses and expenses increased by \$285 million, or 13%, from \$2,204 million for the year ended December 31, 2002, to \$2,489 million for the year ended December 31, 2003.

Policyholder benefits increased by \$144 million, or 19%, from \$755 million for the year ended December 31, 2002, to \$899 million for the year ended December 31, 2003. Our specialty property products accounted for \$112 million of the increase primarily due to growth in our creditor-placed and voluntary homeowners insurance lines of business and approximately \$18 million of the increase is attributable to various catastrophes (\$30 million in 2003 compared to \$12 million in 2002). Our consumer protection products also contributed \$32 million of the increase primarily due to growth in our warranty and extended service contracts line of business.

Selling, underwriting and general expenses increased by \$141 million, or 10%, from \$1,449 million for the year ended December 31, 2002, to \$1,590 million for the year ended December 31, 2003. Selling and underwriting expenses increased by \$116 million, which consisted of \$45 million primarily from our specialty property products due to growth in our creditor-placed and voluntary homeowners insurance and manufactured housing insurance lines. Also, \$71 million of the increase was from our consumer protection products due to increased growth in our warranty and extended service contract lines of business. General expenses increased by \$25 million, primarily from start up costs related to setting up new clients in the creditor-placed homeowners insurance area and increased business from our warranty and extended service contract products.

*Segment Income After Tax*

Segment income after tax increased by \$1 million, or 1%, from \$132 million for the year ended December 31, 2002, to \$133 million for the year ended December 31, 2003. Excluding the decrease in investment income of \$13 million after-tax, segment income after tax increased by \$14 million, or 11%.

Income taxes decreased by \$9 million, or 14%, from \$65 million for the year ended December 31, 2002, to \$56 million for the year ended December 31, 2003. This decrease was mainly due to a decrease in pre-tax income and a lower effective tax rate in 2003.

*Year Ended December 31, 2002 Compared to December 31, 2001*

*Total Revenues*

Total revenues increased by \$179 million, or 8%, from \$2,222 million in 2001 to \$2,401 million in 2002.

Net earned premiums and other considerations increased by \$171 million, or 9%, from \$1,906 million in 2001 to \$2,077 million in 2002. The increase was primarily due to approximately \$100 million of additional net earned premiums from our specialty property solutions products, including approximately \$86 million from the growth of our creditor-placed and voluntary homeowners insurance, flood insurance and manufactured housing related property coverages. Consumer protection solutions contributed an additional \$71 million to the increase in net earned premiums primarily due to the growth of \$39 million attributable to our warranty and extended service contracts business and \$58 million from an accidental death and dismemberment product, which we started selling in 2001 and stopped selling in 2002. These increases were partly offset by the decrease in credit insurance products as the transition from credit insurance products to debt protection administration programs continued and fees from debt protection administration programs did not fully compensate for the decrease in credit insurance premiums. See Business Operating Business Segments Assurant Solutions Consumer Protection Solutions.



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Net investment income decreased by \$13 million, or 6%, from \$218 million in 2001 to \$205 million in 2002. The average portfolio yield dropped 51 basis points from 6.36% in 2001 to 5.85% in 2002 due to the lower interest rate environment. This decrease was partially offset by the reinvestment of tax advantaged investments, such as preferred stock, low-income housing tax credit investments and tax-exempt municipal bonds, into higher yield taxable investments. Also, average allocated invested assets increased by approximately 2%.

Fees and other income increased by \$21 million, or 21%, from \$98 million in 2001 to \$119 million in 2002, including \$13 million in additional fee income resulting from our credit insurance business transitioning to debt protection administration services.

*Total Benefits, Losses and Expenses*

Total benefits, losses and expenses increased by \$120 million, or 6%, from \$2,084 million in 2001 to \$2,204 million in 2002.

Policyholder benefits increased by \$115 million, or 18%, from \$640 million in 2001 to \$755 million in 2002. Consumer protection solutions benefits contributed \$98 million of this increase due primarily to \$36 million from the warranty and extended service contracts business and \$24 million from an accidental death and disability product. The increase was partly offset by a decrease in benefits in credit insurance products, which related to the decrease in premiums resulting from the transition to debt protection administration products. The growth of our specialty property solutions product lines also contributed a further \$17 million to the increase in policyholder benefits in 2002, including approximately \$11 million of losses related to Hurricane Lili and Arizona wildfires. In 2001, we had approximately \$10 million in losses related to tropical storm Allison.

Selling, underwriting and general expenses increased by \$5 million, or less than 1%, from \$1,444 million in 2001 to \$1,449 million in 2002. Commissions, taxes, licenses and fees contributed \$21 million to the increase. The increase was primarily in our specialty property solutions business from the growth in the creditor-placed homeowners and manufactured housing homeowners insurance products. This increase was offset by a decrease in general expenses of \$16 million primarily due to a non-recurring cost incurred in 2001.

*Segment Income After Tax*

As a result of the foregoing, segment income after tax increased by \$34 million, or 35%, from \$98 million in 2001 to \$132 million in 2002.

Income taxes increased \$25 million, or 62%, from \$40 million in 2001 to \$65 million in 2002. The increase was primarily due to a 43% increase in segment income before income tax. The majority of the remaining increase was due to an increase in our effective tax rate primarily due to our decision to reduce our ownership of tax-advantaged investments.

**Table of Contents****Assurant Health***Overview*

The table below presents information regarding Assurant Health's segment results of operations:

	For the Year Ended December 31,		
	2003	2002	2001
	(in millions except membership data)		
<b>Revenues:</b>			
Net earned premiums and other considerations	\$ 2,009	\$ 1,834	\$ 1,838
Net investment income	49	55	58
Fees and other income	33	23	14
<b>Total revenues</b>	<b>2,091</b>	<b>1,912</b>	<b>1,910</b>
<b>Benefits, losses and expenses:</b>			
Policyholder benefits	(1,317)	(1,222)	(1,306)
Selling, underwriting and general expenses	(589)	(546)	(496)
<b>Total benefits, losses and expenses</b>	<b>(1,906)</b>	<b>(1,768)</b>	<b>(1,802)</b>
<b>Segment income before income tax</b>	<b>185</b>	<b>144</b>	<b>108</b>
Income taxes	(64)	(49)	(37)
<b>Segment income after tax</b>	<b>\$ 121</b>	<b>\$ 95</b>	<b>\$ 71</b>
Loss ratio(1)	65.6%	66.6%	71.1%
Expense ratio(2)	28.9%	29.4%	26.8%
Combined ratio(3)	93.3%	95.2%	97.3%
<b>Membership by product line (in thousands):</b>			
Individual	761	670	600
Small employer group	376	355	420
<b>Total</b>	<b>1,137</b>	<b>1,025</b>	<b>1,020</b>

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

*Year Ended December 31, 2003 Compared to December 31, 2002**Total Revenues*

Total revenues increased by \$179 million, or 9.0%, from \$1,912 million for the year ended December 31, 2002, to \$2,091 million for the year ended December 31, 2003.

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Net earned premiums and other considerations increased by \$175 million, or 10%, from \$1,834 million for the year ended December 31, 2002, to \$2,009 million for the year ended December 31, 2003. Net earned premiums attributable to our individual health insurance business increased \$156 million due to membership growth and premium rate increases. Net earned premiums attributable to our small employer group health insurance business increased \$19 million primarily because we instituted premium rate increases in select small group markets to sufficiently price for the underlying medical costs of existing business and for anticipated future medical trends.

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Net investment income decreased by \$6 million, or 11%, from \$55 million for the year ended December 31, 2002, to \$49 million for the year ended December 31, 2003. There was a 69 basis point decrease in yield on the investment portfolio from 6.43% for the year ended December 31, 2002, to 5.74% for the year ended December 31, 2003, due to the lower interest rate environment. Offsetting the decrease in yield was a 5% increase in average invested assets for the year ended December 31, 2003, over the comparable prior year period.

Fees and other income increased by \$10 million, or 43%, from \$23 million for the year ended December 31, 2002, to \$33 million for the year ended December 31, 2003, due to additional insurance policy fees and higher fee-based product sales in individual markets, such as sales of our non-insurance health access discount cards.

*Total Benefits, Losses and Expenses*

Total benefits, losses and expenses increased by \$138 million, or 8%, from \$1,768 million for the year ended December 31, 2002, to \$1,906 million for the year ended December 31, 2003.

Policyholder benefits increased by \$95 million, or 8%, from \$1,222 million for the year ended December 31, 2002, to \$1,317 million for the year ended December 31, 2003. This increase was consistent with the increase in net earned premiums and other considerations. The loss ratio improved 100 basis points from 66.6% for the year ended December 31, 2002, to 65.6% for the year ended December 31, 2003, primarily due to our risk management activities.

Selling, underwriting and general expenses increased by \$43 million, or 8%, from \$546 million for the year ended December 31, 2002, to \$589 million for the year ended December 31, 2003. Commissions increased by \$33 million corresponding to an increase in first year net earned premiums over the prior year. Taxes, licenses and fees decreased by \$6 million due to reduced premium tax rates on a portion of the medical premium. Amortization of deferred policy acquisition costs increased by \$7 million due to higher sales of individual health insurance products beginning in 2000. General expenses increased by \$9 million mainly due to additional spending to improve claims experience. The expense ratio improved 50 basis points from 29.4% for the year ended December 31, 2002, to 28.9% for the year ended December 31, 2003.

*Segment Income After Tax*

Segment income after tax increased by \$26 million, or 27%, from \$95 million for the year ended December 31, 2002, to \$121 million for the year ended December 31, 2003.

Income taxes increased by \$15 million, or 31%, from \$49 million for the year ended December 31, 2002, to \$64 million for the year ended December 31, 2003. The increase was consistent with the 28% increase in segment income before income tax during the year ended December 31, 2003.

*Year Ended December 31, 2002 Compared to December 31, 2001*

*Total Revenues*

Total revenues remained virtually unchanged from 2001 to 2002, at \$1,910 million in 2001 as compared to \$1,912 million in 2002.

Net earned premiums and other considerations also remained stable from 2001 to 2002, at \$1,838 million in 2001 as compared to \$1,834 million in 2002, with an increase of \$142 million in 2002 in the net earned premiums attributable to our individual health insurance products being offset by a decrease of \$146 million during such year in net earned premiums attributable to our small employer group health insurance products. Net earned premiums attributable to our individual health insurance business increased due to membership growth and premium rate increases. Net earned premiums attributable to our small employer group health insurance business decreased due to declining membership, partially offset by small employer group premium rate increases that we instituted in selected markets to adequately price for the underlying medical costs of existing business and for anticipated future medical trends.

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Net investment income decreased by \$3 million, or 5%, from \$58 million in 2001 to \$55 million in 2002. There was a 96 basis point decrease in yield on the investment portfolio from 7.39% in 2001 to 6.43% in 2002 mainly due to the lower interest rate environment. Partially offset by the decrease in yield was a 7.7% increase in average allocated invested assets in 2002.

Fees and other income increased by \$9 million, or 64%, from \$14 million in 2001 to \$23 million in 2002 due to additional insurance policy fees and higher fee-based product sales in our individual health insurance business.

*Total Benefits, Losses and Expenses*

Total benefits, losses and expenses decreased by \$34 million, or 2%, from \$1,802 million in 2001 to \$1,768 million in 2002.

Policyholder benefits decreased by \$84 million, or 6%, from \$1,306 million in 2001 to \$1,222 million in 2002. This decrease was principally due to a higher mix of individual health insurance business which had a lower loss ratio relative to small employer group health insurance business, primarily due to disciplined pricing and product design changes. The loss ratio improved 450 basis points from 71.1% in 2001 to 66.6% in 2002 due primarily to the higher mix of individual health insurance business, increased premium rates and product design changes.

Selling, underwriting and general expenses increased by \$50 million, or 10%, from \$496 million in 2001 to \$546 million in 2002. Taxes, licenses and fees increased by \$5 million in 2002, or 13%, due to a change in the mix of business by state and legal entity, and the loss of favorable consolidated premium tax return benefits triggered by the disposition of FFG. The amortization of DAC increased by \$21 million in 2002, or 49%, due to higher sales of individual health insurance products beginning in 2000. General expenses increased by \$34 million in 2002, or 13%, due to investments in technology, higher employee compensation and additional spending to achieve loss ratio improvements. Partially offsetting these increases was a \$10 million, or 7%, decrease in commissions due to a higher mix of first year individual health insurance business. Individual health insurance policy acquisition costs are deferred and amortized in subsequent years.

The expense ratio increased by 260 basis points from 26.8% in 2001 to 29.4% in 2002. This increase was primarily attributable to the higher commissions on the mix of business in individual health insurance, investments in technology, higher employee compensation and additional spending to achieve loss ratio improvements.

*Segment Income After Tax*

Segment income after tax increased by \$24 million, or 34%, from \$71 million in 2001 to \$95 million in 2002.

Income taxes increased by \$12 million, or 32%, from \$37 million in 2001 to \$49 million in 2002. The increase was consistent with the 33% increase in segment income before income tax in 2002.



**Table of Contents****Assurant Employee Benefits***Overview*

The table below presents information regarding Assurant Employee Benefits segment results of operations:

	For the Year Ended December 31,		
	2003	2002(4)	2001(4)
	(in millions)		
<b>Revenues:</b>			
Net earned premiums and other considerations	\$ 1,256	\$ 1,233	\$ 934
Net investment income	140	148	144
Fees and other income	54	74	39
<b>Total revenues</b>	<b>1,450</b>	<b>1,455</b>	<b>1,117</b>
<b>Benefits, losses and expenses:</b>			
Policyholder benefits	(921)	(945)	(738)
Selling, underwriting and general expenses	(433)	(422)	(316)
<b>Total benefits, losses and expenses</b>	<b>(1,354)</b>	<b>(1,367)</b>	<b>(1,054)</b>
<b>Segment income before income tax</b>	<b>96</b>	<b>88</b>	<b>63</b>
Income taxes	(34)	(31)	(22)
<b>Segment income after tax</b>	<b>\$ 62</b>	<b>\$ 57</b>	<b>\$ 41</b>
<b>Loss ratio(1)</b>	<b>73.3%</b>	<b>76.6%</b>	<b>79.0%</b>
<b>Expense ratio(2)</b>	<b>33.1%</b>	<b>32.3%</b>	<b>32.5%</b>
<b>Premium persistency ratio(3)</b>	<b>79.9%</b>	<b>79.9%</b>	<b>84.3%</b>
<b>Net earned premiums and other considerations by major product groupings:</b>			
Group dental	\$ 539	\$ 554	\$ 257
Group disability	461	400	398
Group life	256	279	279
<b>Total</b>	<b>\$ 1,256</b>	<b>\$ 1,233</b>	<b>\$ 934</b>

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

(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.

(3) The premium persistency ratio is equal to the rate at which existing business for all issue years at the beginning of the period remains in force at the end of the period. The calculations for the years ended December 31, 2002 and 2001 exclude DBD.

(4) We acquired DBD on December 31, 2001 and CORE on July 12, 2001; therefore, the results of DBD and CORE are included in our Assurant Employee Benefits segment financial results beginning in 2002 and July 2001, respectively.

*Year Ended December 31, 2003 Compared to December 31, 2002*

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### *Total Revenues*

Total revenues decreased by \$5 million, less than 1%, from \$1,455 million for the year ended December 31, 2002, to \$1,450 million for the year ended December 31, 2003.

Net earned premiums and other considerations increased by \$23 million, or 2%, from \$1,233 million for the year ended December 31, 2002, to \$1,256 million for the year ended December 31, 2003. This increase was

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primarily due to \$61 million of additional disability reinsurance premiums assumed from DRMS. Partially offsetting this increase was a \$23 million decrease in group life net earned premiums, due to the non-renewal of certain unprofitable business and less new business due to continued pricing discipline. In addition, dental net earned premiums decreased by \$15 million, driven by lower sales and the non-renewal of a large account. This resulted in an aggregate premium persistency of 79.9% for 2003, which was unchanged from 2002.

Net investment income decreased by \$8 million, or 5%, from \$148 million for the year ended December 31, 2002, to \$140 million for the year ended December 31, 2003. There was a 65 basis point decrease in yield on the investment portfolio from 7.04% for the year ended December 31, 2002 to 6.39% for the year ended December 31, 2003 due to the lower interest rate environment. Average invested assets increased by 8% from 2002 to 2003.

Fees and other income decreased by \$20 million, or 27%, from \$74 million for the year ended December 31, 2002, to \$54 million for the year ended December 31, 2003. The decrease was primarily due to lower fee revenue from CORE due to the sale of PRA.

*Total Benefits, Losses and Expenses*

Total benefits, losses, and expenses decreased by \$13 million, or 1%, from \$1,367 million for the year ended December 31, 2002, to \$1,354 million for the year ended December 31, 2003.

Policyholder benefits decreased by \$24 million, or 3%, from \$945 million for the year ended December 31, 2002, to \$921 million for the year ended December 31, 2003. The decrease was driven by favorable development in disability claims and lower claim volume due to the reduction in dental and group life net earned premiums. In addition, during the third quarter of 2003, we completed reserve studies for the group disability, group life, and group dental products, which concluded that, in the aggregate, these reserves were redundant. Adjustments were made to reserves to reflect current mortality and morbidity experience. In addition, the reserve discount rate on all claims was changed to reflect the continuing low interest rate environment. The net impact of these adjustments was a reduction in reserves of approximately \$18 million. The benefits loss ratio improved from 76.6% in 2002 to 73.3% in 2003. Excluding the reserve release discussed above, the benefits loss ratio would have been 74.7% in 2003. This improvement was driven primarily by favorable disability experience.

Selling, underwriting, and general expenses increased by \$11 million, or 3%, from \$422 million for the year ended December 31, 2002, to \$433 million for the year ended December 31, 2003. The expense ratio increased from 32.3% in 2002, to 33.1% in 2003, primarily due to a \$6.2 million write-down of previously capitalized software related to our new administration system.

*Segment Income After Tax*

Segment income after tax increased by \$5 million, or 9%, from \$57 million for the year ended December 31, 2002 to \$62 million for the year ended December 31, 2003.

Income tax expense increased by \$3 million, or 10%, from \$31 million for the year ended December 31, 2002 to \$34 million for the year ended December 31, 2003. The increase was consistent with the 9% increase in segment income before tax.

*Year Ended December 31, 2002 Compared to Year Ended December 31, 2001*

*Total Revenues*

Total revenues increased by \$338 million, or 30%, from \$1,117 million in 2001 to \$1,455 million in 2002, substantially all of which was attributable to the acquisition of DBD.

Net earned premiums and other considerations increased by \$299 million, or 32%, from \$934 million in 2001 to \$1,233 million in 2002. Excluding the \$299 million increase in net earned premiums due to the acquisition of DBD, net earned premiums were unchanged at \$934 million from 2001 to 2002, primarily because new business was offset by non-renewal of certain unprofitable business. An additional contributing



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factor was increased pressure on ancillary employee benefits provided by employer groups due to increased medical costs. Premium persistency (excluding the DBD acquisition) decreased by 440 basis points from 84.3% for 2001 to 79.9% for 2002 because of disciplined underwriting and reduced employment in renewed groups.

Net investment income increased by \$4 million from \$144 million in 2001 to \$148 million in 2002 mainly due to the DBD acquisition. This increase was offset in part by a decrease in investment yields by 36 basis points from 7.52% in 2001 to 7.16% in 2002 due to the lower interest rate environment.

Fees and other income increased by \$35 million, or 90%, from \$39 million in 2001 to \$74 million in 2002 primarily due to a full year of fee revenue from CORE, which was acquired on July 12, 2001. CORE fee revenue was \$66 million in 2002, as compared to the half-year of revenue recorded in 2001 of \$31 million.

*Total Benefits, Losses and Expenses*

Total benefits, losses and expenses increased by \$313 million, or 30%, from \$1,054 million in 2001 to \$1,367 million in 2002.

Policyholder benefits increased by \$207 million, or 28%, from \$738 million in 2001 to \$945 million in 2002. Excluding the \$197 million increase related to the acquisition of DBD, policyholder benefits increased by \$10 million, or 1%, driven by growth in group dental premiums. Our loss ratio improved 240 basis points from 79.0% in 2001 to 76.6% in 2002. Excluding the effect of the DBD acquisition, the loss ratio in 2002 was 80.1%, which was higher than in 2001 due to slight deterioration in group dental and group life experience.

Selling, underwriting and general expenses increased by \$106 million, or 34%, from \$316 million in 2001 to \$422 million in 2002 primarily due to the DBD and CORE acquisitions. The expense ratio was virtually unchanged between 2001 and 2002.

*Segment Income After Tax*

Segment income after tax increased by \$16 million, or 39%, from \$41 million in 2001 to \$57 million in 2002.

Income taxes increased by \$9 million, or 41%, from \$22 million in 2001 to \$31 million in 2002. The increase was consistent with the 40% increase in segment income before income tax.

**Table of Contents***Assurant PreNeed**Overview*

The table below presents information regarding Assurant PreNeed's segment results of operations:

	<b>For the Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	(in millions)		
<b>Revenues:</b>			
Net earned premiums and other considerations	\$ 529	\$ 538	\$ 507
Net investment income	188	184	179
Fees and other income	5	5	3
<b>Total revenues</b>	<b>722</b>	<b>727</b>	<b>689</b>
<b>Benefits, losses and expenses:</b>			
Policyholder benefits	(521)	(513)	(486)
Selling, underwriting and general expenses	(146)	(137)	(120)
<b>Total benefits, losses and expenses</b>	<b>(667)</b>	<b>(650)</b>	<b>(606)</b>
<b>Segment income before income tax</b>	<b>55</b>	<b>77</b>	<b>83</b>
Income taxes	(19)	(27)	(29)
<b>Segment income after tax</b>	<b>\$ 36</b>	<b>\$ 50</b>	<b>\$ 54</b>
<b>Net earned premiums and other considerations by channel:</b>			
AMLIC	\$ 283	\$ 293	\$ 278
Independent	246	245	229
<b>Total</b>	<b>\$ 529</b>	<b>\$ 538</b>	<b>\$ 507</b>

*Year Ended December 31, 2003 Compared to December 31, 2002**Total Revenues*

Total revenues decreased by \$5 million, or 1%, from \$727 million for the year ended December 31, 2002, to \$722 million for the year ended December 31, 2003.

Net earned premiums and other considerations decreased by \$9 million, or 2%, from \$538 million for the year ended December 31, 2002, to \$529 million for the year ended December 31, 2003. The decrease was primarily due to a \$10 million decline in our AMLIC channel which was caused by a 24% drop in new face sales from SCI, AMLIC's principal customer.

Net investment income increased by \$4 million, or 2%, from \$184 million for the year ended December 31, 2002, to \$188 million for the year ended December 31, 2003. A 8% increase in average invested assets was offset by a 34 basis point decrease in the annualized investment yield, which was 6.91% at December 31, 2002 compared to 6.57% at December 31, 2003. The increase in average invested assets was due to a

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larger inforce block of business. The rate decline reduced net investment income by \$10 million over the comparable prior year period. The decline in yields was due to the lower interest rate environment and the restructuring of the portfolio in 2002 to improve credit quality.

### *Total Benefits, Losses and Expenses*

Total benefits, losses and expenses increased by \$17 million, or 3%, from \$650 million for the year ended December 31, 2002, to \$667 million for the year ended December 31, 2003.

Policyholder benefits increased by \$8 million, or 2%, from \$513 million for the year ended December 31, 2002, to \$521 million for the year ended December 31, 2003. This increase is due to the increase in business

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written and other factors. A portion of our pre-funded funeral insurance policies use a Consumer Price Index rate credited on policies. The Consumer Price Index rate increased from 1.97% in 2002 to 2.40% in 2003. This increased policyholder benefits by \$2 million in 2003. In addition, benefit expense increased \$4 million over 2002 levels related to higher customer utilization of an early pay off feature that allows conversions from limited pay policies to single pay policies.

Selling, underwriting and general expenses increased by \$9 million, or 7%, from \$137 million for the year ended December 31, 2002, to \$146 million for the year ended December 31, 2003. Amortization of DAC and VOBA expense increased \$9 million for the year ended December 31, 2003, principally due to a larger in force block of business. Overall general operating expenses before deferral of costs declined \$2 million over the comparable prior year period due to expense control. This reduction includes a \$0.7 million charge associated with restructuring of the sales force in our independent division. Non deferrable general operating expenses were even with the prior year.

*Segment Income After Tax*

Segment income after tax decreased by \$14 million, or 28%, from \$50 million for the year ended December 31, 2002, to \$36 million for the year ended December 31, 2003. This decrease was caused primarily by smaller spreads between investment income earned and the fixed benefits credited to policyholders, increased growth credited on the Consumer Price Index block of business and higher utilization of the early pay off feature.

Income taxes decreased by \$8 million, or 30%, from \$27 million for the year ended December 31, 2002, to \$19 million for the year ended December 31, 2003, which was consistent with the 28% decrease in segment income before tax.

*Year Ended December 31, 2002 Compared to December 31, 2001*

*Total Revenues*

Total revenues increased by \$38 million, or 6%, from \$689 million in 2001 to \$727 million in 2002.

Net earned premiums and other considerations increased by \$31 million, or 6%, from \$507 million in 2001 to \$538 million in 2002. The increase was driven by a \$15 million increase in net earned premiums in 2002 in our AMLIC channel due to an increase in the average size of the policies sold and increased earned premiums from the independent channel due to increased sales through expansion of pre-need counselors. Policy size increased due to a change in packaging of funerals sold by SCI.

Net investment income increased by \$5 million, or 3%, from \$179 million in 2001 to \$184 million in 2002. An 8% increase in average allocated invested assets in 2002 resulting from the growth in force policies resulted in additional investment income in 2002. Offsetting the increase in invested assets was a 34 basis point decrease in yield on the investment portfolio from 7.25% in 2001 to 6.91% in 2002 due to the lower interest rate environment and restructuring of the investment portfolio to enhance credit quality. The decline in yields reduced investment income in 2002.

Fees and other income increased by \$2 million, or 66%, from \$3 million in 2001 to \$5 million in 2002.

*Total Benefits, Losses and Expenses*

Total benefits, losses and expenses increased by \$44 million, or 7%, from \$606 million in 2001 to \$650 million in 2002.

Policyholder benefits increased by \$27 million, or 6%, from \$486 million in 2001 to \$513 million in 2002. The increase in policyholder benefits was consistent with the increase in business written, partially offset by other factors. A portion of our pre-funded funeral insurance policies uses a Consumer Price Index rate as a growth rate credited on policies. The Consumer Price Index rate decreased from 3.36% in 2001 to 1.97% in 2002. This reduced policyholder benefits by \$6 million in 2002. In addition, benefit expense increased by



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\$3 million from 2001 to 2002 related to higher customer utilization of an early pay off feature that allows conversion from limited pay policies to single pay policies.

Selling, underwriting and general expenses increased by \$17 million, or 14%, from \$120 million in 2001 to \$137 million in 2002. The primary reason for the increase was an increase in amortization of DAC and VOBA of \$12 million in 2002, as a result of the increased sales of single pay policies versus plans paid over a three-, five- and ten-year period. The acquisition costs on single pay policies are amortized in the year of issue, thus causing the increase in expense levels in 2002 over 2001. All other expenses increased by \$5 million in 2002 from 2001 due primarily to the increase in premiums. Our mix of business has been moving toward more single pay policies relative to multi-pay policies increasing our expenses in any given year.

*Segment Income After Tax*

Segment income after tax decreased by \$4 million, or 7%, from \$54 million in 2001 to \$50 million in 2002. This was caused primarily by smaller spreads between our investment yields and rates we credited to our policyholders. Also, profits were lower due to higher utilization of the early pay off feature described above and higher mortality, offset by the lower Consumer Price Index credited growth.

Income taxes decreased by \$2 million, or 7%, from \$29 million in 2001 to \$27 million in 2002, which was largely consistent with the 7% decrease in segment income before income tax.

*Corporate and Other*

*Overview*

The Corporate and Other segment includes activities of the holding company, financing expenses, net realized gains (losses) on investments, interest income earned from short-term investments held and interest income from excess surplus of insurance subsidiaries not allocated to other segments. The Corporate and Other segment includes the results of operations of FFG, from January 1, 2001 to March 31, 2001 (the period prior to its disposition). The Corporate and Other segment also includes the amortization of deferred gains associated with the sales of FFG and LTC through reinsurance agreements as described above.

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The table below presents information regarding Corporate and Other's segment results of operations:

	For the Year Ended December 31,		
	2003	2002	2001
	(in millions)		
<b>Revenues:</b>			
Net earned premiums and other considerations	\$	\$	\$ 58
Net investment income	43	40	112
Net realized gains (losses) on investments	2	(118)	(119)
Amortization of deferred gains on disposal of businesses	68	80	68
Gain on disposal of businesses		11	62
Fees and other income	11	25	67
	<u>        </u>	<u>        </u>	<u>        </u>
Total revenues	124	38	248
	<u>        </u>	<u>        </u>	<u>        </u>
<b>Benefits, losses and expenses:</b>			
Policyholder benefits			(70)
Selling, underwriting and general expenses	(69)	(55)	(120)
Interest expense	(1)		(14)
Distributions on mandatorily redeemable preferred securities of subsidiary trusts	(113)	(118)	(118)
Interest premiums on redemption of mandatorily redeemable preferred securities of subsidiary trusts	(206)		
	<u>        </u>	<u>        </u>	<u>        </u>
Total benefits, losses and expenses	(389)	(173)	(322)
	<u>        </u>	<u>        </u>	<u>        </u>
<b>Segment income before income tax</b>	(265)	(135)	(74)
Income taxes	99	61	21
	<u>        </u>	<u>        </u>	<u>        </u>
<b>Segment income after tax</b>	\$(166)	\$ (74)	\$ (53)
	<u>        </u>	<u>        </u>	<u>        </u>

As of December 31, 2003, we had approximately \$393 million (pre-tax) of deferred gains that had not yet been amortized. We expect to amortize deferred gains from dispositions through 2031. The deferred gains are being amortized in a pattern consistent with the expected future reduction of the in force blocks of business ceded to The Hartford and John Hancock. This reduction is expected to be more rapid in the first few years after sale and to be slower as the liabilities in the blocks decrease.

The Corporate and Other segment's financial results were affected by the April 2, 2001 sale of FFG. Below are the results of FFG that have been included in the Corporate and Other segment from January 1, 2001 through March 31, 2001.

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	<b>January 1 through March 31, 2001</b>
	<b>(in millions)</b>
<b>Revenues:</b>	
Net earned premiums	\$ 49
Net investment income	32
Fees and other income	65
	<hr/>
Total revenues	146
	<hr/>
<b>Benefits, losses and expenses:</b>	
Policyholder benefits	(48)
Selling, underwriting and general expenses	(86)
	<hr/>
Total benefits, losses and expenses	(134)
	<hr/>
<b>Income before income tax</b>	<b>12</b>
Income taxes	(4)
	<hr/>
<b>Income after tax</b>	<b>\$ 8</b>
	<hr/>

*Year Ended December 31, 2003 Compared to December 31, 2002**Total Revenues*

Total revenues increased by \$86 million, or 226%, from \$38 million for the year ended December 31, 2002, to \$124 million for the year ended December 31, 2003.

Net investment income increased by \$3 million, or 8%, from \$40 million for the year ended December 31, 2002, to \$43 million for the year ended December 31, 2003.

Net realized gains (losses) on investments improved by \$120 million, or 102%, from net realized losses of \$118 million for the year ended December 31, 2002, to net realized gains of \$2 million for the year ended December 31, 2003. In 2003, we had other than temporary impairments of \$20 million as compared to \$85 million for the year ended December 31, 2002. There were no individual impairments of available for sale securities in excess of \$10 million in 2003. Impairments on available for sale securities in excess of \$10 million in 2002 consisted of an \$18 million writedown of fixed maturity investments in NRG Energy, a \$12 million writedown of fixed maturity investments in AT&T Canada and an \$11 million writedown of fixed maturity investments in MCI WorldCom. Excluding the effects of other-than-temporary impairments, we recorded an increase in net realized gains of \$55 million.

Amortization of deferred gain on disposal of businesses decreased by \$12 million, or 15%, from \$80 million for the year ended December 31, 2002, to \$68 million for the year ended December 31, 2003. This decrease was consistent with the run-off of the businesses ceded to The Hartford and John Hancock.

Gains on disposal of businesses decreased by \$11 million, or 100%, from \$11 million for the year ended December 31, 2002, to zero for the year ended December 31, 2003. On June 28, 2002, we sold our investment in NHP, which resulted in pre-tax gains of \$11 million.

Fees and other income decreased by \$14 million, or 56%, from \$25 million for the year ended December 31, 2002, to \$11 million for the year ended December 31, 2003. The decrease was primarily due to \$15 million of income recognized in 2002 associated with a settlement true-up of a 1999 sale of a small block of business to a third party and reversal of bad debt allowances due to successful collection of receivables that had been previously written off.



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*Total Benefits, Losses and Expenses*

Total benefits, losses and expenses increased by \$216 million, or 125%, from \$173 million for the year ended December 31, 2002, to \$389 million for the year ended December 31, 2003.

Selling, underwriting and general expenses increased by \$14 million, or 25%, from \$55 million for the year ended December 31, 2002, to \$69 million for the year ended December 31, 2003. This increase was primarily due to \$14 million of consulting and compensation expenses incurred in 2003, related to our initial public offering in February 2004.

Distributions on preferred securities of subsidiary trusts decreased by \$5 million, or 4%, from \$118 million for the year ended December 31, 2002, to \$113 million for the year ended December 31, 2003. We redeemed \$1,250 million of our mandatorily redeemable preferred securities of subsidiary trusts in mid-December 2003, resulting in lower expenses. We redeemed the remaining \$196 million of mandatorily redeemable preferred securities of subsidiary trusts in January 2004. As a result of the early extinguishment of all the mandatorily redeemable preferred securities of subsidiary trusts we incurred \$206 million of interest premiums for the year ended December 31, 2003 compared to zero recognized in 2002.

*Segment Loss After Tax*

Segment loss after tax increased by \$92 million, or 124%, from \$74 million in 2002 to \$166 million in 2003. This change was primarily due to the \$206 million of interest premiums incurred related to early extinguishment of mandatorily redeemable preferred securities of subsidiary trusts, partially offset by the favorable \$120 million change in net realized capital gains (losses) on investments.

Income tax benefit increased by \$38 million, or 62%, from \$61 million in 2002 to \$99 million in 2003. The change in the income tax benefit was consistent with the change in segment loss before income tax. In 2002 we also recognized the release of approximately \$13 million of previously provided tax accruals, which were no longer considered necessary based on the resolution of certain domestic tax matters.

*Year Ended December 31, 2002 Compared to December 31, 2001*

*Total Revenues*

Total revenues decreased by \$210 million, or 85%, from \$248 million in 2001 to \$38 million in 2002.

Net earned premiums and other considerations decreased by \$58 million, or 100%, from \$58 million in 2001 to zero in 2002 due to the sale of FFG.

Net investment income decreased by \$72 million, or 64%, from \$112 million in 2001 to \$40 million in 2002. Excluding the \$32 million reduction in investment income from the sale of FFG, net investment income decreased in 2002 as a result of a decrease in invested assets because we paid down debt and acquired CORE and DBD.

Net realized losses on investments decreased by \$1 million, or 1%, from \$119 million in 2001 to \$118 million in 2002. In 2002, we had other-than-temporary impairments of \$85 million, as compared to \$78 million in 2001. Impairments of available for sale securities in excess of \$10 million in 2002 consisted of an \$18 million writedown of fixed maturity investments in NRG Energy, a \$12 million writedown of fixed maturity investments in AT&T Canada and an \$11 million writedown of fixed maturity investments in MCI WorldCom. Impairments of available for sale securities in excess of \$10 million in 2001 consisted of a \$22 million writedown of fixed maturity investments in Enron.

Amortization of deferred gain on disposal of businesses increased by \$12 million, or 18%, from \$68 million in 2001 to \$80 million in 2002, mainly due a to full year of amortization of the deferred gain on the sale of FFG as compared to nine months of amortization in 2001.

Gains on disposal of businesses decreased by \$51 million, or 82%, from \$62 million in 2001 to \$11 million in 2002. This decrease was due to the sale of FFG's mutual fund operations. Also, on June 28, 2002, we sold our investment in NHP, which resulted in pre-tax gains of \$11 million in 2002.



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Fees and other income decreased by \$42 million, or 63%, from \$67 million in 2001 to \$25 million in 2002. Excluding the \$65 million reduction in other income due to the sale of FFG, fees and other income increased by \$23 million in 2002 mainly due to approximately \$15 million of income associated with a settlement true-up of a 1999 sale of a small block of business to a third party and reversal of bad debt allowances due to successful collection of receivables that had been previously written off.

*Total Benefits, Losses and Expenses*

Total benefits, losses and expenses decreased by \$149 million, or 46%, from \$322 million in 2001 to \$173 million in 2002.

Policyholder benefits decreased by \$70 million, or 100%, from \$70 million in 2001 to zero in 2002. The decrease was entirely due to the sale of FFG.

Selling, underwriting and general expenses decreased by \$65 million, or 54%, from \$120 million in 2001 to \$55 million in 2002. Excluding the \$86 million reduction in selling, underwriting and general expenses attributable to the sale of FFG, these expenses increased by \$21 million from 2001 to 2002.

Interest expense decreased by \$14 million, or 100%, from \$14 million in 2001 to zero in 2002. We used a portion of the FFG sale proceeds to repay \$225 million of debt owed to Fortis Finance.

Distributions on preferred securities of subsidiary trusts in 2002 remained unchanged from 2001 at \$118 million.

*Segment Loss After Tax*

Segment loss after tax increased by \$21 million, or 40%, from a \$53 million loss in 2001 to a \$74 million loss in 2002, primarily due to the sale of FFG.

Income taxes increased by \$40 million, or 190%, from \$21 million in 2001 to \$61 million in 2002. Excluding the \$4 million reduction in income tax expenses due to the sale of FFG, income tax benefit increased by \$44 million in 2002. The change in the income tax benefit was largely consistent with the increase in segment losses before income tax. In 2002, we also recognized the release of approximately \$13 million of previously provided tax accruals, which were no longer considered necessary based on the resolution of certain domestic tax matters.

**Investments**

The following table shows the carrying value of our investments by type of security as of the dates indicated:

	As of December 31, 2003		As of December 31, 2002		As of December 31, 2001	
	(in millions)					
Fixed maturities	\$ 8,729	80%	\$ 8,036	80%	\$ 7,630	79%
Equity securities	456	4	272	3	247	3
Commercial mortgage loans on real estate	933	9	842	8	869	9
Policy loans	68	1	69	1	68	1
Short-term investments	276	2	684	7	627	6
Other investments	462	4	181	1	209	2
<b>Total investments</b>	<b>\$ 10,924</b>	<b>100%</b>	<b>\$ 10,084</b>	<b>100%</b>	<b>\$ 9,650</b>	<b>100%</b>

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Of our fixed maturity securities shown above, 70% and 75% (based on total fair value) were invested in securities rated A or better as of December 31, 2003 and December 31, 2002, respectively. As interest rates decrease, the market value of fixed maturity securities increases.



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The following table provides the cumulative net unrealized gains (pre-tax) on fixed maturity securities and equity securities as of the dates indicated:

	As of December 31, 2003	As of December 31, 2002	As of December 31, 2001
	(in millions)		
<b>Fixed maturities:</b>			
Amortized cost	\$ 8,230	\$ 7,631	\$ 7,471
Net unrealized gains	499	405	159
	<hr/>	<hr/>	<hr/>
Fair value	\$ 8,729	\$ 8,036	\$ 7,630
	<hr/>	<hr/>	<hr/>
<b>Equities:</b>			
Cost	\$ 437	\$ 265	\$ 243
Net unrealized gains	19	7	4
	<hr/>	<hr/>	<hr/>
Fair value	\$ 456	\$ 272	\$ 247
	<hr/>	<hr/>	<hr/>

Net unrealized gains on fixed maturity securities increased by \$94 million, or 23%, from December 31, 2002 to December 31, 2003. The increase in net unrealized gains was primarily due to the decline in investment grade corporate securities yield spreads combined with an increase in Treasury yields. Spreads on investment grade corporate securities fell by approximately 119 basis points while yields on 10-year Treasury securities increased by 44 basis points between December 31, 2002 and December 31, 2003.

Net unrealized gains on fixed maturity securities increased by \$246 million, or 155%, from December 31, 2001 to December 31, 2002. This reflected the impact of declining market interest rates. Yields on 10-year U.S. Treasury bonds decreased by 121 basis points from 5.03% at December 31, 2001, to 3.82% at December 31, 2002.

Net unrealized gains on equity securities increased by \$12 million, or 171%, from December 31, 2002, to December 31, 2003 and by \$3 million, or 75%, from December 31, 2001 to December 31, 2002.

**Reserves**

The following table presents reserve information as of the dates indicated:

	As of December 31, 2003	As of December 31, 2002	As of December 31, 2001
	(in millions)		
Future policy benefits and expenses	\$ 6,235	\$ 5,807	\$ 5,547
Unearned premiums	3,134	3,208	3,267
Claims and benefits payable	3,513	3,374	3,250
	<hr/>	<hr/>	<hr/>
Total policy liabilities	\$ 12,882	\$ 12,389	\$ 12,064
	<hr/>	<hr/>	<hr/>

Future policy benefits and expenses increased by \$428 million, or 7%, from December 31, 2002 to December 31, 2003 and by \$260 million, or 5%, from December 31, 2001 to December 31, 2002. The main contributing factor to these increases was growth in underlying business.

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Unearned premiums decreased by \$74 million, or 2%, from December 31, 2002 to December 31, 2003 and by \$59 million, or 2%, from December 31, 2001 to December 31, 2002. The decrease is primarily driven by the run-off of our credit life and disability contracts, offset by growth in other short duration contracts.

Claims and benefits payable increased by \$139 million, or 4%, from December 31, 2002 to December 31, 2003 and increased by \$124 million, or 4%, from December 31, 2001 to December 31, 2002. The main contributing factor to these increases was growth in underlying business.

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The following table provides reserve information by our major lines of business for the years ended December 31, 2003 and 2002:

	December 31, 2003			December 31, 2002		
	Future Policy Benefits and Expenses	Unearned Premiums	Claims and Benefits Payable	Future Policy Benefits and Expenses	Unearned Premiums	Claims and Benefits Payable
(in millions)						
<b>Long Duration Contracts:</b>						
Pre-funded funeral life insurance policies and investment-type annuity contracts	\$2,276	\$ 3	\$ 14	\$1,991	\$ 3	\$ 15
Life insurance no longer offered	688	1	4	693	1	5
Universal life and annuities no longer offered	322	1	17	334	1	12
FFG and LTC disposed businesses	2,744	48	177	2,619	48	139
All other	205	57	151	170	75	167
<b>Short Duration Contracts:</b>						
Group term life		13	394		11	457
Group disability		4	1,375		4	1,299
Medical		67	266		43	202
Dental		7	39		8	44
Property and warranty		1,149	621		1,135	536
Credit life and disability		759	403		1,074	445
Extended service contracts		1,023	18		803	16
All other		2	34		2	37
<b>Total policy liabilities</b>	<b>\$6,235</b>	<b>\$3,134</b>	<b>\$3,513</b>	<b>\$5,807</b>	<b>\$3,208</b>	<b>\$3,374</b>

For a description of our reserving methodology, see Note 15 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

**Long Duration**

The following discusses the reserving process for our major long duration product line.

*Pre-Funded Funeral Life Insurance*

Reserves for future policy benefits are recorded as the present value of future benefits to policyholders and related expenses less the present value of future net premiums. Reserve assumptions are selected using best estimates for expected investment yield, inflation, mortality and withdrawal rates. These assumptions reflect current trends, are based on Company experience and include provision for possible unfavorable deviation. An unearned premium reserve is also recorded which represents the balance of the excess of gross premiums over net premiums that is still to be recognized in future years income in a constant relationship to insurance in force.

Loss recognition testing is performed annually. Such testing involves the use of best estimate assumptions to determine if the net liability position (all liabilities less DAC) exceeds the minimum liability needed. Any premium deficiency would first be addressed by removing the provision for adverse deviation. To the extent a premium deficiency still remains, it would be recognized immediately by a charge to the statement of operations and a corresponding reduction in DAC. Any additional deficiency would be recognized as a premium deficiency reserve.

Historically, loss recognition testing has not resulted in an adjustment to DAC or reserves. Such adjustments would occur only if economic or mortality conditions significantly deteriorated.

**Table of Contents*****Short Duration***

For short duration contracts, claims and benefits payable reserves are recorded when insured events occur. The liability is based on the expected ultimate cost of settling the claims. The claims and benefits payable reserves include (1) case reserves for known but unpaid claims as of the balance sheet date; (2) IBNR reserves for claims where the insured event has occurred but has not been reported to us as of the balance sheet date; and (3) loss adjustment expense reserves for the expected handling costs of settling the claims. Periodically, we review emerging experience and make adjustments to our case reserves and assumptions where necessary. Below are further discussions on the reserving process for our major short duration products.

***Group Disability and Group Term Life***

Case or claim reserves are set for active individual claims on group disability policies and for disability waiver of premium benefits on group term life policies. Assumptions considered in setting such reserves include disabled life mortality and claim termination rates (the rates at which disabled claimants come off claim, either through recovery or death), claim management practices, awards for social security and other benefit offsets and yield rates earned on assets supporting the reserves. Group long-term disability and group term life waiver of premium reserves are discounted because the payment pattern and ultimate cost are fixed and determinable on an individual claim basis.

Factors considered when setting IBNR reserves include patterns in elapsed time from claim incidence to claim reporting, and elapsed time from claim reporting to claim payment.

Key sensitivities for group long-term disability claim reserves include the discount rate and claim termination rates. If the discount rate were reduced (or increased) by 100 basis points, reserves at December 31, 2003 would be approximately \$52 million higher (or lower). If claim termination rates were 10% lower (or higher) than currently assumed, reserves at December 31, 2003 would be approximately \$38 million higher (or lower).

The discount rate is also a key sensitivity for group term life waiver of premium reserves. If the discount rate were reduced (or increased) by 100 basis points, reserves at December 31, 2003 would be approximately \$13 million higher (or lower).

As set forth in Note 15 of the Notes to Consolidated Financial Statements for the years ended December 31, 2003, 2002 and 2001, Group Disability incurred losses related to prior years were approximately \$53 million more, \$3 million less and \$7 million less than the reserves that were previously estimated for the years ended December 31, 2003, 2002 and 2001, respectively. Group Disability reserves are estimated based on claims incurred in several prior years. The Group Disability reserve deficiency in 2003, and its related upward revision reflects the result of reserve adequacy studies concluded in the third quarter of 2003. Based on results of those studies, reserves were increased by \$44 million, almost all of which was attributable to a reduction in the discount rate to reflect current yields on invested assets. The Group Disability reserve redundancies in 2002 and 2001, which were less than 1% of prior year reserves, arose as a result of our actual claim recovery rates exceeding those assumed in our beginning-of-year case reserves, after taking into account an offset of one less year of discounting reflected in the Company's end-of-year case reserves.

As set forth in Note 15 of the Notes to Consolidated Financial Statements for the years ended December 31, 2003, 2002 and 2001, Group Term Life incurred losses related to prior years were approximately \$93 million, \$29 million and \$35 million less than the reserves that were previously estimated for the years ended December 31, 2003, 2002 and 2001, respectively. A significant portion of the Group Term Life reserve is related to waiver of premium reserves for disabled claimants. Group Term Life waiver of premium reserves are estimated based on claims incurred in several prior years.

Reductions in the Group Term Life reserves reflected the results of reserve adequacy studies conducted in the third quarter of 2003. Based on the results of those studies, reserves were reduced by \$59 million. The change in estimate reflects an increase in the discount rate, lower mortality rates and higher recovery rates. These changes were made to reflect current yields on invested assets, and recent mortality and recovery

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experience. Another portion of the Group Term Life reserve redundancies in all years described above, was caused by actual mortality rates being lower than assumed in our beginning-of-year reserves and recovery rates being higher than assumed in our beginning-of-year waiver of premium reserves. The remaining redundancy and related downward revision were due to shorter-than-expected lags between incurred claim dates and paid claim dates. These amounts were offset by one less year of discounting reflected in the Company's end-of-year waiver of premium reserves.

The conclusion of the reserve studies determined that, in the aggregate, the reserves were redundant. The reserve discount rate on all claims was changed to reflect the continuing low interest rate environment. The net impact of these adjustments was a reduction in reserves of approximately \$18 million, which includes \$3 million of reserve release relating to the group dental business.

### *Medical*

IBNR reserves represent the largest component of reserves estimated for claims and benefits payable in our Medical line of business, and we use a number of methods in their estimation, including the loss development method and the projected claim method for recent claim periods. We use several methods in our Medical line of business because of the limitations of relying exclusively on a single method.

A key sensitivity is the loss development factors used. Loss development factors selected take into consideration claims processing levels, claims under case management, medical inflation, seasonal effects, medical provider discounts and product mix. A 1% reduction (or increase) to the loss development factors for the most recent four months would result in approximately \$22 million higher (or lower) reserves at December 31, 2003. Our historical claims experience indicates that approximately 85% of medical claims are paid within four months of the incurred date.

As set forth in Note 15 of the Notes to Consolidated Financial Statements for the years ended December 31, 2003, 2002 and 2001, actual losses incurred in our Medical business related to prior years were \$58 million, \$43 million and \$48 million less than previously estimated for the years ended December 31, 2003, 2002 and 2001, respectively. Due to the short-tail nature of this business, these developments relate to claims incurred in the preceding year (i.e., in 2002, 2001 and 2000, respectively). The redundancies in our Medical line of business, and the related downward revisions in our Medical reserve estimates, were caused by our claims developing more favorably than expected. Our actual claims experience reflected lower medical provider utilization and lower medical inflation than assumed in our prior-year pricing and reserving processes. The differences in actual versus best estimate paid claim lag rates, medical provider utilization and medical inflation reflect experience gains, which are recognized in the period the gains emerge.

None of the changes in incurred claims from prior years in our Medical line of business, and the related downward revisions in our Medical estimated reserves, were attributable to any change in our reserve methods or assumptions.

### *Property and Warranty*

Our Property and Warranty line of business includes creditor-placed homeowners, manufactured housing homeowners, credit property, credit unemployment and warranty insurance and some longer-tail coverages which we no longer write (e.g. asbestos, environmental, other general liability and personal accident). Our Property and Warranty loss reserves consist of case reserves and bulk reserves. Bulk reserves consist of IBNR and development on case reserves. The method we most often use in setting our Property and Warranty bulk reserves is the loss development method. Under this method, we estimate ultimate losses for each accident period by multiplying the current cumulative losses by the appropriate loss development factor. We then calculate the bulk reserve as the difference between the estimate of ultimate losses and the current case-incurred losses (paid losses plus case reserves). We select loss development factors based on a review of historical averages, and we consider recent trends and business specific matters such as current claims payment practices.

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We may use other methods depending on data credibility and product line. We use the estimates generated by the various methods to establish a range of reasonable estimates. The best estimate of reserves is selected from the middle to upper end of third quartile of the range of reasonable estimates.

As set forth in Note 15 of the Notes to Consolidated Financial Statements for the periods ended December 31, 2003, 2002 and 2001, actual losses incurred in our Property and Warranty lines of business related to prior years were \$13 million less, \$2 million more and \$27 million less than previously estimated for the years ended December 31, 2003, 2002 and 2001, respectively. The redundancy in our Property and Warranty lines of business, and the related downward revisions in our estimated reserves in 2001 occurred mostly in our credit unemployment and credit property insurance coverages, whereas the other coverages showed immaterial adjustments to prior years' incurred losses. The small deficiency in 2002 largely reflected a shift in the mix of business away from the credit property and unemployment product lines. In addition, an increase in the claim frequency of unemployment contributed to additional development and the small deficiency experienced in 2002. In 2003, unemployment claim frequencies stabilized, resulting in a modest redundancy. These changes reflect experience gains and losses from actual claim frequencies differing from the best estimate claim frequencies, and differences in actual versus best estimate paid claim lag rates. Such gains and losses are recognized in the periods they emerge.

For the longer-tail Property and Warranty coverages (e.g., asbestos, environmental, other general liability and personal accident), there were no changes in estimated amounts for incurred claims in prior years for all years.

None of the changes in incurred claims from prior years, and the related downward revisions in estimated reserves, was attributable to any change in our reserve methods or assumptions.

Most of our credit insurance business is written on a retrospective commission basis, which permits Assurant Solutions to adjust commissions based on claims experience. Thus, any adjustment to prior years' incurred claims in this line of business is largely offset by a change in contingent commissions which is included in the selling, underwriting and general expenses line in the results of operations.

**Reinsurance**

The following table sets forth our reinsurance recoverables as of the dates indicated:

	As of December 31, 2003	As of December 31, 2002
	(in millions)	
Reinsurance recoverables	\$4,445	\$4,650

Reinsurance recoverables decreased by \$205 million, or 4%, from December 31, 2002 to December 31, 2003. We have used reinsurance to exit certain businesses, such as the dispositions of FFG and LTC. The reinsurance recoverables relating to these dispositions amounted to \$2,410 million at December 31, 2003 and \$2,255 million at December 31, 2002.

In the ordinary course of business, we are involved in both the assumption and cession of reinsurance with non-affiliated companies. The following table provides details of the reinsurance recoverables balance for the years ended December 31:

	2003	2002
	(in millions)	
Ceded future policyholder benefits and expense	\$2,551	\$2,452
Ceded unearned premium	971	1,277
Ceded claims and benefits payable	788	744
Ceded paid losses	135	177
Total	\$4,445	\$4,650





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We utilize ceded reinsurance for loss protection and capital management, business dispositions and, in Assurant Solutions, for client risk and profit sharing.

### ***Loss Protection and Capital Management***

As part of our overall risk and capacity management strategy, we purchase reinsurance for certain risks underwritten by our various business segments, including significant individual or catastrophic claims, and to free up capital to enable us to write additional business.

For those product lines where there is exposure to catastrophes, we closely monitor and manage the aggregate risk exposure by geographic area, and we have entered into reinsurance treaties to manage exposure to these types of events.

Under indemnity reinsurance transactions in which we are the ceding insurer, we remain liable for policy claims if the assuming company fails to meet its obligations. To limit this risk, we have control procedures to evaluate the financial condition of reinsurers and to monitor the concentration of credit risk to minimize this exposure. The selection of reinsurance companies is based on criteria related to solvency and reliability and, to a lesser degree, diversification as well as developing strong relationships with our reinsurers for the sharing of risks.

### ***Business Dispositions***

We have used reinsurance to exit certain businesses, such as the dispositions of FFG and LTC. Reinsurance was used in these cases to facilitate the transactions because the businesses shared legal entities with business segments that we retained. Assets backing liabilities ceded relating to these businesses are held in trusts, and the separate accounts relating to FFG are still reflected in our balance sheet.

The reinsurance recoverable from The Hartford was \$1,537 million and \$1,558 million as of December 31, 2003 and 2002, respectively. The reinsurance recoverable from John Hancock was \$873 million and \$697 million as of December 31, 2003 and 2002, respectively. We would be responsible for administering this business and funding policyholder liabilities in the event of a default by reinsurers.

### ***Assurant Solutions Segment Client Risk and Profit Sharing***

The Assurant Solutions segment writes business produced by its clients, such as mortgage lenders and servicers and financial institutions, and reinsures all or a portion of such business to insurance subsidiaries of the clients. Such arrangements allow significant flexibility in structuring the sharing of risks and profits on the underlying business.

A substantial portion of Assurant Solutions' reinsurance activities are related to agreements to reinsure premiums and risk related to business generated by certain clients to the clients' captive insurance companies or to reinsurance subsidiaries in which the clients have an ownership interest. Through these arrangements, our insurance subsidiaries share some of the premiums and risk related to client-generated business with these clients. When the reinsurance companies are not authorized to do business in our insurance subsidiary's domiciliary state, our insurance subsidiary generally obtains collateral, such as a trust or a letter of credit, from the reinsurance company or its affiliate in an amount equal to the outstanding reserves to obtain full financial credit in the domiciliary state for the reinsurance. Our reinsurance agreements do not relieve us from our direct obligation to our insured. Thus, a credit exposure exists to the extent that any reinsurer is unable to meet the obligations assumed in the reinsurance agreements. To minimize our exposure to reinsurance insolvencies, we evaluate the financial condition of our reinsurers and hold substantial collateral (in the form of funds, trusts and letters of credit) as security under the reinsurance agreements. See [Quantitative and Qualitative Disclosures about Market Risk](#) and [Credit Risk](#).

### ***Liquidity and Capital Resources***

Assurant, Inc. is a holding company, and as such, has limited direct operations of its own. Our holding company assets consist primarily of the capital stock of our subsidiaries. Accordingly, our future cash flows

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depend upon the availability of dividends and other statutorily permissible payments from our subsidiaries, such as payments under our tax allocation agreement and under management agreements with our subsidiaries. The ability to pay such dividends and to make such other payments will be limited by applicable laws and regulations of the states in which our subsidiaries are domiciled, which subject our subsidiaries to significant regulatory restrictions. The dividend requirements and regulations vary from state to state and by type of insurance provided by the applicable subsidiary. These laws and regulations require, among other things, our insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay to the holding company. Solvency regulations, capital requirements and rating agencies are some of the factors used in determining the amount of capital used for dividends. For 2003, the maximum amount of distributions our subsidiaries could pay under applicable laws and regulations without prior regulatory approval was \$290 million. As a result of, among other things, statutory accounting for our sales of businesses, we believe that our maximum will be significantly lower for 2004. For a discussion of the various restrictions on the ability of our subsidiaries to pay dividends to us, please see Regulation .

Dividends and other interest income paid by our subsidiaries totaled \$99.5 million for the year ended December 31, 2003, \$186.5 million for the year ended December 31, 2002 and \$615.4 million for the year ended December 31, 2001. Figures for 2001 were higher due to a gain on the sale of FFG. We used these cash inflows primarily to pay expenses, to perform other acquisitions, to make interest payments on indebtedness and to make dividend payments to our stockholders.

The primary sources of funds for our subsidiaries consist of premiums and fees collected, the proceeds from the sales and maturity of investments and investment income. Cash is primarily used to pay insurance claims, agent commissions, operating expenses and taxes. We generally invest our subsidiaries' excess funds in order to generate income.

Historically, Fortis has maintained a \$1 billion commercial paper facility that we have been able to access (via intercompany loans) for up to \$750 million. We use the commercial paper facility to cover any cash shortfalls, which may occur from time to time. During 2003, we accessed \$75 million of this facility for 3 days in connection with the extinguishment of our mandatorily redeemable preferred securities of subsidiary trusts. We had no commercial paper borrowings during the year ended December 31, 2002. In 2001, \$217 million in commercial paper was issued and redeemed. There was no outstanding commercial paper at year-end 2001. In connection with our separation from Fortis, we no longer have access to this facility.

In March 2004, we established a \$500 million commercial paper program, which will be available for working capital and other general corporate purposes. Our subsidiaries do not maintain commercial paper or other borrowing facilities at the subsidiary level. This program is backed up by a \$500 million senior revolving credit facility with a syndicate of banks arranged by Banc One Capital Markets, Inc. and Citigroup Global Market, Inc., which was established on January 30, 2004. The revolving credit facility is unsecured and is available until February 2007, so long as we are not in default. This facility is also available for general corporate purposes, but to the extent used thereto, would be unavailable to back up the commercial paper program.

The revolving credit facility contains restrictive covenants. The terms of the revolving credit facility also require that we maintain certain specified minimum ratios or thresholds. As of May 4, 2004 we are in compliance with all covenants and we maintain all specified minimum ratios and thresholds.

In December 2003, we entered into two senior bridge credit facilities of \$650 million and \$1,100 million. The aggregate indebtedness of \$1,750 million under the facility was in connection with the extinguishment of our mandatorily redeemable preferred securities of subsidiary trusts.

On February 5, 2004, we received a \$725.5 million capital contribution from Fortis simultaneously with the closing of our initial public offering. The proceeds from that contribution were used to repay the \$650 million of outstanding indebtedness under the senior bridge credit facility and \$75.5 million of outstanding indebtedness under the \$1,100 million senior bridge credit facility. In addition, we repaid a portion of the \$1,100 million senior bridge credit facility with \$49.5 million in cash.

On February 18, 2004, we issued two series of senior notes in an aggregate principal amount of \$975 million, which are referred to in this prospectus as the restricted notes. The first series is \$500 million in principal amount, bears interest at 5.625% per year and is payable in a single installment due February 15,

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2014. The second series is \$475 million in principal amount, bears interest at 6.750% per year and is payable in a single installment due February 15, 2034.

Interest on our senior notes is payable semi-annually on February 15 and August 15 of each year, commencing August 15, 2004. The senior notes are our unsecured obligations and rank equally with all of our other senior unsecured indebtedness. The senior notes are not redeemable prior to maturity. The net proceeds from the issuance of the senior notes were used to repay a portion of our outstanding indebtedness under our \$1.1 billion senior bridge facility.

Our qualified pension plan was under-funded by \$60 million at December 31, 2003. In accordance with ERISA, there is no expected minimum funding requirement for 2004 or 2005. Our nonqualified plan, which is unfunded, had a projected benefit obligation of \$72 million at December 31, 2003. The expected Company payments to retirees under this plan are approximately \$4 million per year in 2004 and 2005. Also, our post-retirement plans (other than pension), which are partially funded with \$7 million of assets, had an accumulated post-retirement benefit obligation of \$51 million at December 31, 2003. In addition, the expected Company payments to retirees and dependents under the postretirement plan are approximately \$1.2 million per year in 2004 and 2005. See Note 17 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

We estimate that our capital expenditures in connection with our name change and rebranding initiative will be approximately \$10 million, which we will expense in 2004. We are not currently planning to make any other significant capital expenditures in 2004 or 2005.

During January 2004 we paid to participants in the Assurant Appreciation Incentive Rights Plan an aggregate of \$25 million in connection with the cash-out of all outstanding Fortis, Inc. incentive rights. See Management Compensation and Incentive Plans Assurant Appreciation Incentive Rights Plan.

In management's opinion, our subsidiaries' cash flow from operations together with our income and gains from our investment portfolio will provide sufficient liquidity to meet our needs in the ordinary course of business.

**Cash Flows**

We monitor cash flows at both the consolidated and subsidiary levels. Cash flow forecasts at the consolidated and subsidiary levels are provided on a monthly basis, and we use trend and variance analyses to project future cash needs.

The table below shows our recent net cash flows:

	<b>For the Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	(in millions)		
<b>Net cash provided by (used in):</b>			
Operating activities	\$ 741	\$ 365	\$ 632
Investing activities	(711)	(380)	(218)
Financing activities	317	(43)	(380)
<b>Net change in cash</b>	<b>\$ 347</b>	<b>\$ (58)</b>	<b>\$ 34</b>

*Cash Flows for the Years Ended December 31, 2003, 2002 and 2001.* The key changes of the net cash inflow of \$347 million for the year ended December 31, 2003 were net purchases of fixed maturity securities of \$1,929 million, maturities of these securities of \$1,131 million, and issuance of debt in the amount of \$2,400 million. Key changes of the net cash outflow of \$58 million for the year ended December 31, 2002 were net purchases of fixed maturity securities of \$1,164 million and maturities of these securities of \$858 million. Key changes of the net cash inflow of \$34 million for the year ended December 31, 2001 were the sale of FFG



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for \$385 million in cash and changes in our revenues and expenses from operating activities as described above.

At December 31, 2003, we had total debt outstanding of \$1,970 million, as compared to \$1,471 million at December 31, 2002, and December 31, 2001. At December 31, 2003 this debt consisted of \$1,750 million of two senior bridge credit facility arrangements, \$196 million of mandatorily redeemable preferred securities of subsidiary trusts, and \$24 million of mandatorily redeemable preferred stock. At December 31, 2002 and 2001 this debt consisted of trust capital securities, which we classify as mandatorily redeemable preferred securities of subsidiary trusts, and a small amount of mandatorily redeemable preferred stock.

The table below shows our cash outflows for distributions and dividends for the periods indicated:

Security	For the Year Ended December 31,		
	2003	2002	2001
	(in thousands)		
Mandatorily redeemable preferred securities of subsidiary trusts and interest paid	\$ 128,694	\$ 117,114	\$ 133,667
Mandatorily redeemable preferred stock dividends	963	1,052	1,053
Class A Common Stock dividends	139,310		67,000
Class B and C Common Stock dividends	41,877	41,876	42,298
<b>Total</b>	<b>\$ 310,844</b>	<b>\$ 160,042</b>	<b>\$ 244,018</b>

See Capitalization.

**Commitments and Contingencies**

We have obligations and commitments to third parties as a result of our operations. These obligations and commitments, as of December 31, 2003, are detailed in the table below by maturity date as of the dates indicated:

	As of December 31,				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
	(in thousands)				
Contractual obligations:					
Mandatorily redeemable preferred securities of subsidiary trusts	\$ 196,224	\$	\$	\$	\$ 196,224
Debt	1,750,000				1,750,000
Mandatorily redeemable preferred stock				24,160	24,160
Operating leases	39,622	67,406	48,802	44,533	200,363
Commitments:					
Interest premiums on redemption of preferred securities of subsidiary trusts	66,734				66,734
Investment purchases					
Outstanding:					
unsettled trades	39,552				39,552
commercial mortgage loans on real estate	75,900				75,900

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other investments	22,429	_____	_____	_____	22,429
Total obligations and commitments	\$2,190,461	\$67,406	\$48,802	\$68,693	\$2,375,362

In December 2003 and January 2004, we redeemed all of the mandatorily redeemable preferred securities of subsidiary trusts for a redemption price equal to their aggregate liquidation amount plus accrued and unpaid

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interest to the date of redemption and aggregate premium of approximately \$206 million, all of which was expensed in the fourth quarter of 2003. We entered into the senior bridge credit facilities in connection with these redemptions described under liquidity and capital resources .

***Letters of Credit***

In the normal course of business, letters of credit are issued primarily to support reinsurance arrangements. These letters of credit are supported by commitments with financial institutions. We had approximately \$118 million and \$120 million of letters of credit outstanding as of December 31, 2003 and December 31, 2002, respectively.

Additionally, as of December 31, 2003, we had an unused \$50 million letter of credit facility.

**Quantitative and Qualitative Disclosures about Market Risk**

As a provider of insurance products, effective risk management is fundamental to our ability to protect both our customers and stockholders interests. We are exposed to potential loss from various market risks, in particular interest rate risk and credit risk. Additionally, we are exposed to inflation risk and to a small extent to foreign currency risk.

Interest rate risk is the possibility the fair value of liabilities will change more or less than the market value of investments in response to changes in interest rates, including changes in the slope or shape of the yield curve and changes in spreads due to credit risks and other factors.

Credit risk is the possibility that counterparties may not be able to meet payment obligations when they become due. We assume counterparty credit risk in many forms. A counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to us. Primarily, our credit risk exposure is concentrated in our fixed income investment portfolio and, to a lesser extent, in our reinsurance recoverables.

Inflation risk is the possibility that a change in domestic price levels produces an adverse effect on earnings. This typically happens when only one of invested assets or liabilities is indexed to inflation.

Foreign exchange risk is the possibility that changes in exchange rates produce an adverse effect on earnings and equity when measured in domestic currency. This risk is largest when assets backing liabilities payable in one currency are invested in financial instruments of another currency. Our general principle is to invest in assets that match the currency in which we expect the liabilities to be paid.

***Interest Rate Risk***

Interest rate risk arises as we invest substantial funds in interest-sensitive fixed income assets, such as fixed maturity investments, mortgage-backed and asset-backed securities and commercial mortgage loans, primarily in the United States and Canada. There are two forms of interest rate risk price risk and reinvestment risk. Price risk occurs when fluctuations in interest rates have a direct impact on the market valuation of these investments. As interest rates rise, the market value of these investments falls, and conversely, as interest rates fall, the market value of these investments rises. Reinvestment risk occurs when fluctuations in interest rates have a direct impact on expected cash flows from mortgage-backed and asset-backed securities. As interest rates fall, an increase in prepayments on these assets results in earlier than expected receipt of cash flows forcing us to reinvest the proceeds in an unfavorable lower interest rate environment, and conversely as interest rates rise, a decrease in prepayments on these assets results in later than expected receipt of cash flows forcing us to forgo reinvesting in a favorable higher interest rate environment. As of December 31, 2003, we held \$8,729 million of fixed maturity securities at fair market value and \$933 million of commercial mortgages at amortized cost for a combined total of 88% of total invested assets. As of December 31, 2002, we held \$8,036 million of fixed maturity securities at fair market value and \$842 million of commercial mortgages at amortized cost for a combined total of 88% of total invested assets.

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We expect to manage interest rate risk by selecting investments with characteristics such as duration, yield, currency and liquidity tailored to the anticipated cash outflow characteristics of our insurance and reinsurance liabilities.

Our group long-term disability reserves are also sensitive to interest rates. Group long-term disability reserves are discounted to the valuation date at the valuation interest rate. The valuation interest rate is determined by taking into consideration actual and expected earned rates on our asset portfolio, with adjustments for investment expenses and provisions for adverse deviation.

The interest rate sensitivity of our fixed maturity security assets is assessed using hypothetical test scenarios that assume several positive and negative parallel shifts of the underlying yield curves. We have assumed that both the United States and Canadian yield curves have a 100% correlation and, therefore, move together. The individual securities are repriced under each scenario using a valuation model. For investments such as mortgage-backed and asset-backed securities, a prepayment model was used in conjunction with a valuation model. Our actual experience may differ from the results noted below particularly due to assumptions utilized or if events occur that were not included in the methodology. The following table summarizes the results of this analysis for bonds, mortgage-backed and asset-backed securities held in our investment portfolio:

**Interest Rate Movement Analysis**

**of Market Value of Fixed Maturity Securities Investment Portfolio  
As of December 31, 2003**

	<u>-100</u>	<u>-50</u>	<u>0</u>	<u>50</u>	<u>100</u>
	(in millions)				
Total market value	\$9,255	\$8,989	\$8,729	\$8,472	\$8,224
% Change in market value from base case	6.0%	3.0%	0.00%	(2.9)%	(5.8)%
\$ Change in market value from base case	\$ 526	\$ 260	\$ 0	\$ (257)	\$ (505)

**Credit Risk**

We have exposure to credit risk primarily as a holder of fixed income securities and by entering into reinsurance cessions.

Our risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer. We attempt to limit our credit exposure by imposing fixed maturity portfolio limits on individual issuers based upon credit quality. Currently our portfolio limits are 1.5% for issuers rated AA-and above, 1% for issuers rated A- to A+, 0.75% for issuers rated BBB- to BBB+ and 0.38% for issuers rated BB- to BB+. These portfolio limits are further reduced for certain issuers with whom we have credit exposure on reinsurance agreements. We use the lower of Moody's or Standard & Poor's ratings to determine an issuer's rating. See Business Investments.

The following table presents our fixed maturity investment portfolio by ratings of the nationally recognized securities rating organizations as of December 31, 2003:

<u>Rating</u>	<u>Fair Value</u>	<u>Percentage of Total</u>
	(in millions)	
Aaa/Aa/A	\$6,074	70%
Baa	2,110	24%
Ba	361	4%
B and lower	184	2%
	<u>          </u>	<u>          </u>
Total	\$8,729	100%
	<u>          </u>	<u>          </u>



We are also exposed to the credit risk of our reinsurers. When we reinsure, we are still liable to our insureds regardless of whether we get reimbursed by our reinsurer. As part of our overall risk and capacity

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management strategy, we purchase reinsurance for certain risks underwritten by our various business segments as described above under Reinsurance.

For at least 50% of our \$4,445 million of reinsurance recoverables at December 31, 2003, we are protected from the credit risk by using some type of risk mitigation mechanism such as a trust, letter of credit or by withholding the assets in a modified coinsurance or co-funds-withheld arrangement. For example, reserves of \$1,537 million and \$873 million as of December 31, 2003 relating to two large coinsurance arrangements with The Hartford and John Hancock, respectively, related to sales of businesses. If the value of the assets in these trusts decreases, The Hartford and John Hancock, as the case may be, will be required to put more assets in the trusts. We may be dependent on the financial condition of The Hartford and John Hancock, whose A.M. Best ratings are currently A+ and A++, respectively. For recoverables that are not protected by these mechanisms, we are dependent solely on the credit of the reinsurer. Occasionally, the credit worthiness of the reinsurer becomes questionable. See Risk Factors Risks Related to Our Company Reinsurance may not be available or adequate to protect us against losses, and we are subject to the credit risk of reinsurers. We believe that a majority of our reinsurance exposure has been ceded to companies rated A- or better by A.M. Best.

### ***Inflation Risk***

Inflation risk arises as we invest substantial funds in nominal assets, which are not indexed to the level of inflation, whereas the underlying liabilities are indexed to the level of inflation. Approximately 16% of Assurant PreNeed's insurance policies with reserves of approximately \$391 million as of December 31, 2003 have death benefits that are guaranteed to grow with the Consumer Price Index. In times of rapidly rising inflation, the credited death benefit growth on these liabilities increases relative to the investment income earned on the nominal assets resulting in an adverse impact on earnings. We have partially mitigated this risk by purchasing a contract with payments tied to the Consumer Price Index. See Derivatives.

In addition, we have inflation risk in our individual and small employer group health insurance businesses to the extent that medical costs increase with inflation, and we have not been able to increase premiums to keep pace with inflation.

### ***Foreign Exchange Risk***

We are exposed to some foreign exchange risk arising from our international operations mainly in Canada. We also have limited foreign exchange risk exposure to currencies other than the Canadian dollar, primarily British pounds and Danish krone. Total invested assets denominated in these other currencies were less than 1% of our total invested assets at December 31, 2003.

Foreign exchange risk is mitigated by matching our liabilities under insurance policies that are payable in foreign currencies with investments that are denominated in such currency. We have not established any hedge to our foreign currency exchange rate exposure.

We assess our foreign exchange risk by examining the foreign exchange rate exposure of the excess of invested assets over the statutory reserve liabilities denominated in foreign currency. Two stress scenarios are examined.

The first scenario assumes a hypothetical 10% immediate change in the foreign exchange rate.

The second scenario assumes a more severe 2.33 standard deviation event (comparable to a one in 100 probability under a normal distribution).

The modeling techniques we use to calculate our exposure does not take into account correlation among foreign currency exchange rates or correlation among various markets. Our actual experience may differ due to correlation assumptions utilized or if events occur that were not included in the methodology, such as significant illiquidity or other market events.

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***Derivatives***

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the prices of securities or commodities. Derivative financial instruments may be exchange-traded or contracted in the over-the-counter market and include swaps, futures, options and forward contracts.

Under insurance statutes, our insurance companies may use derivative financial instruments to hedge actual or anticipated changes in their assets or liabilities, to replicate cash market instruments or for certain income-generating activities. These statutes generally prohibit the use of derivatives for speculative purposes. We generally do not use derivative financial instruments.

On August 1, 2003, we purchased a contract to partially hedge the inflation risk exposure inherent in some of our pre-funded funeral insurance policies. See Inflation risk.

In 2003, we determined that the modified coinsurance agreement with The Hartford contained an embedded derivative. In accordance with DIG B36, we bifurcated the contract into its debt host and embedded derivative (total return swap) and recorded the embedded derivative at fair value on the balance sheet. Contemporaneous with the adoption of DIG B36, we transferred the invested assets related to this coinsurance agreement from fixed maturities available for sale to trading securities, included in other investments in the December 31, 2003 consolidated balance sheet. The combination of the two aforementioned transactions has no net impact in the consolidated statements of operations for the year ended December 31, 2003.

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**BUSINESS**

**Overview**

We pursue a differentiated strategy of building leading positions in specialized market segments for insurance products and related services in North America and selected other markets. We provide:

- creditor-placed homeowners insurance;
- manufactured housing homeowners insurance;
- debt protection administration;
- credit insurance;
- warranties and extended service contracts;
- individual health and small employer group health insurance;
- group dental insurance;
- group disability insurance;
- group life insurance; and
- pre-funded funeral insurance.

The markets we target are generally complex, have a relatively limited number of competitors and, we believe, offer attractive profit opportunities. In these markets, we leverage the experience of our management team and apply our expertise in risk management, underwriting and business-to-business management, as well as our technological capabilities in complex administration and systems. Through these activities, we seek to generate above-average 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. In our Assurant Solutions business, we have leadership positions or are aligned with clients who are leaders in creditor-placed homeowners insurance based on servicing volume, manufactured housing homeowners insurance based on number of homes built and debt protection administration based on credit card balances outstanding. In our Assurant Employee Benefits business, we are a leading writer of group dental plans sponsored by employers based on the number of subscribers and based on the number of master contracts in force. A master contract refers to a single contract issued to an employer that provides coverage on a group basis; group members receive certificates, which summarize benefits provided and serve as evidence of membership. In our Assurant PreNeed business, we are the largest writer of pre-funded funeral insurance measured by face amount of new policies sold. We believe that our leadership positions give us a sustainable competitive advantage in our chosen markets.

We currently have four decentralized operating business segments to ensure focus on critical activities close to our target markets and customers, while simultaneously providing centralized support in key functions. Each operating business segment has its own experienced management team with the autonomy to make decisions on key operating matters. These managers are eligible to receive incentive-based compensation based in part on operating business segment performance and in part on company-wide performance, thereby encouraging strong business performance and cooperation across all our businesses. At the operating business segment level, we stress disciplined underwriting, careful analysis and constant improvement and product redesign. At the corporate level, we provide support services, including investment, asset/liability matching and capital management, leadership development, information technology support and other administrative and finance functions, 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. Also, 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.



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We organize and manage our specialized businesses through four operating business segments:

Operating Business Segment	Principal Products and Services	Principal Distribution Channels	For the Year Ended December 31, 2003
<b>Assurant Solutions</b> <i>Specialty Property</i>	Creditor-placed homeowners insurance (including tracking services)	Mortgage lenders and servicers	<b>Total revenues: \$2,678 million</b> <b>Segment income before income tax: \$189 million</b>
	Manufactured housing homeowners insurance	Manufactured housing lenders, dealers and vertically integrated builders	
<i>Consumer Protection</i>	Debt protection administration	Financial institutions (including credit card issuers) and retailers	
	Credit insurance	Consumer electronics and appliance retailers	
	Warranties and extended service contracts	Vehicle dealerships	
	Appliances		
	Automobiles and recreational vehicles		
	Consumer electronics		
	Wireless devices		
<b>Assurant Health</b> <i>Individual Health</i>	Preferred Provider Organizations (PPO)	Independent agents	<b>Total revenues: \$2,091 million</b> <b>Segment income before income tax: \$185 million</b>
	Short-term medical insurance	National accounts	
<i>Small Employer Group Health</i>	Student medical insurance	Internet	
	PPO	Independent agents	
<b>Assurant Employee Benefits</b>	Group dental insurance	Employee benefit advisors	<b>Total revenues: \$1,450 million</b> <b>Segment income before income tax: \$96 million</b>
	Employer-paid		
	Employee-paid		
	Group disability insurance	Brokers	
	Group term life insurance	DRMS(1)	
<b>Assurant PreNeed</b>	Pre-funded funeral insurance	Service Corporation International (SCI)	<b>Total revenues: \$722 million</b> <b>Segment income before income tax: \$55 million</b>
		Independent funeral homes	

(1) DRMS refers to Disability Reinsurance Management Services, Inc., one of our wholly owned subsidiaries that provides a turnkey (i.e., built, supplied or installed complete and ready to operate) facility to other insurers to write principally group disability insurance, which provides coverage for a natural group, such as employees of a business firm, whose members receive a disability income benefit if illness or an accident renders a member disabled as defined in the policy.

We also have a Corporate and Other segment, which includes activities of the holding company, financing expenses, net realized gains (losses) on investments, interest income earned from short-term investments held and interest income from excess surplus of insurance subsidiaries not allocated to other segments. The Corporate and Other segment includes the results of operations of Fortis Financial Group (FFG) from January 1, 2001 to March 31, 2001 (the period prior to its disposition). The Corporate and Other

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segment also includes the amortization of deferred gains associated with the portions of the sales of FFG and Long Term Care (LTC), a business sold on March 1, 2000, through reinsurance agreements as described elsewhere in this prospectus. See Management's Discussion and Analysis of Financial Condition and Results of Operations Corporate and Other.

For the year ended December 31, 2003, we generated total revenues of \$7,066 million and net income of \$186 million. For the year ended December 31, 2002, we generated total revenues of \$6,532 million, net income before cumulative effect of change in accounting principle of \$260 million and net loss of \$1,001 million (after giving effect to a cumulative change in accounting principle of \$1,261 million). As of December 31, 2003, we had total assets of approximately \$23,728 million, including separate accounts. Our A.M. Best financial strength ratings are either A (Excellent) or A-(Excellent) for all of our domestic operating insurance subsidiaries. A rating of A is the second highest of ten ratings categories and the highest within the category based on modifiers (i.e., A and A- are Excellent) and a rating of A- is the second highest of ten ratings categories and the lowest within the category based on modifiers. We view the A.M. Best ratings as most relevant for the purpose of managing our businesses because these ratings relate to capital management at our insurance subsidiaries. These ratings reflect A.M. Best's opinions of our ability to pay policyholder claims, are not applicable to the exchange notes and are not a recommendation to buy, sell or hold any security, including the exchange notes.

## **Competitive Strengths**

We believe our competitive strengths include:

Leadership Positions in Specialized Markets;

Strong Relationships with Key Clients and Distributors;

History of Product Innovation and Ability to Adapt to Changing Market Conditions;

Disciplined Approach to Underwriting and Risk Management;

Prudent Capital Management;

Diverse Business Mix and Excellent Financial Strength; and

Experienced Management Team with Proven Track Record and Entrepreneurial Culture.

*Leadership Positions in Specialized Markets.* We are a market leader in many of our chosen markets. We hold a leading position or are aligned with clients who are leaders in creditor-placed homeowners insurance based on servicing volume, manufactured housing homeowners insurance based on number of homes built and credit insurance and debt protection administration based on credit card balances outstanding. In addition, we are market leaders in group dental plans sponsored by employers based on the number of subscribers and based on the number of master contracts in force, as well as a market leader in pre-funded funeral insurance based on face amount of new policies sold. We seek to participate in markets in which there are a limited number of competitors and that allow us to achieve a market leading position by capitalizing on our market expertise and capabilities in complex administration and systems, as well as on our established distribution relationships. We believe that our leadership positions provide us with the opportunity to generate high returns in these niche markets.

*Strong Relationships with Key Clients and Distributors.* As a result of our expertise in business-to-business management, we have created strong relationships with our distributors and clients in each of the niche markets we serve. In our Assurant Solutions segment, we have strong long-term relationships in the United States with six out of the ten largest mortgage lenders and servicers based on servicing volume, including JPMorgan Chase Bank, Washington Mutual and Wells Fargo Bank, four out of the seven largest manufactured housing builders based on number of homes built, including Clayton Homes, four out of the six largest general purpose credit card issuers based on credit card balances outstanding, including Bank One, Discover, JPMorgan Chase Bank and MBNA, and six out of the ten largest consumer electronics and appliances retailers based on combined product sales, including CompUSA, RadioShack and Staples. In our

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Assurant Health segment, we have exclusive distribution relationships with leading insurance companies based on total assets, as well as relationships with independent brokers. Through exclusive distribution relationships with companies such as Mutual of Omaha, IPSI, a wholly owned subsidiary of State Farm, and USAA, we gain access to a broad distribution network and a significant number of potential customers. In our Assurant PreNeed segment, we have an exclusive distribution relationship with SCI, the largest funeral provider in North America based on total revenues, as well as relationships with approximately 2,000 funeral homes. We believe that the strength of our distribution relationships enables us to market our products and services to our customers in an effective and efficient manner that would be difficult for our competitors to replicate.

*History of Product Innovation and Ability to Adapt to Changing Market Conditions.* We are able to adapt quickly to changing market conditions by tailoring our product and service offerings to the specific needs of our clients. This flexibility has developed, in part, as a result of our entrepreneurial focus and the encouragement of management autonomy at each business segment. By understanding the dynamics of our core markets, we design innovative products and services to seek to sustain profitable growth and market leading positions. For instance, we believe we were one of the first providers of credit insurance to migrate towards fee-based debt protection solutions for our financial institution clients. This has allowed us to meet the evolving needs of our clients. It also has allowed us to continue generating profitable business despite a significant regulatory change that permitted financial institutions to offer debt protection products similar to credit insurance as part of their basic loan agreements with customers without being subject to insurance regulations. Other examples of our innovative products include: warranty products in our property business designed specifically for vertically integrated manufacturers of manufactured homes; specialty products, such as short-term health insurance, to address specific developments in the health insurance market and Medical Savings Account (MSA) features in our individual health products, which we were one of the first companies to offer. In addition, we developed our creditor-placed homeowners insurance business when we perceived a niche market opportunity.

*Disciplined Approach to Underwriting and Risk Management.* Our businesses share best practices of disciplined underwriting and risk management. We focus on generating profitability through careful analysis of risks and draw on our experience in core specialized markets. Examples of tools we use to manage our risk include our tele-underwriting program, which enables our trained underwriters to interview individual health insurance applicants over the telephone, as well as our electronic billing service in Assurant Employee Benefits, which enables us to collect more accurate data regarding eligibility of insureds. Also, at Assurant Solutions, in order to align our clients' interests with ours and to help us to better manage risk exposure, a significant portion of Assurant Solutions' consumer protection solutions contracts are written on a retrospective commission basis, which permits Assurant Solutions to adjust commissions based on claims experience. Under this contingent commission arrangement, compensation to the financial institutions and other agents distributing our products is predicated upon the actual losses incurred compared to premiums earned after a specific net allowance to Assurant Solutions. We also continually seek to improve and redesign our product offerings based on our underwriting experience. In addition, we closely monitor regulatory and market developments and adapt our approach as we deem necessary to achieve our underwriting and risk management goals. In Assurant Health, for example, we have exited states in which we were not achieving acceptable profitability and have re-entered states where the insurance environments have become more favorable. We are focused on loss containment, and we purchase reinsurance as a risk management tool to diversify risk and protect against unexpected events, such as catastrophes. We believe that our disciplined underwriting and risk management philosophy have enabled us to realize above average financial returns while focusing on our strategic objectives.

*Prudent Capital Management.* We focus on generating above-average returns on a risk-adjusted basis from our operating activities. We invest capital in our operating business segments when we identify attractive profit opportunities in our target markets. To the extent that we believe we can achieve, maintain or improve on leadership positions in these markets by deploying our capital and leveraging our expertise and other competitive advantages, we have done so with the expectation of generating high returns. When expected returns have justified continued investment, we have reinvested cash from operations into enhancing and



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growing our operating business segments through the development of new products and services, additional distribution relationships and other operational improvements. In addition, when we have identified external opportunities that are consistent with these objectives, we have acquired businesses, portfolios, distribution relationships, personnel or other resources. For example, we acquired Protective Life Corporation's Dental Benefits Division in December 2001. Finally, our management has consistently taken a disciplined approach towards withdrawing capital when businesses are no longer anticipated to meet our expectations. For example, we have exited or divested a number of operations including our LTC division, which was sold to John Hancock in 2000 and our FFG division, which was sold to The Hartford in 2001. We believe we have benefited from having the discipline and flexibility to deploy capital opportunistically and prudently to maximize returns to our stockholders.

*Diverse Business Mix and Excellent Financial Strength.* We have four operating business segments across distinct areas of the insurance market. These businesses are generally not affected in the same way by economic and operating trends, which we believe allows us to maintain a greater level of financial stability than many of our competitors across business and economic cycles. In addition, as of December 31, 2003, we had \$23,728 million of total assets, including separate accounts, and \$2,632 million of stockholders' equity. Our domestic operating insurance subsidiaries have financial strength ratings of A (Excellent) or A- (Excellent) from A.M. Best, six of our domestic operating insurance subsidiaries have financial strength ratings of A2 (Good) or A3 (Good) from Moody's and seven of our domestic operating insurance subsidiaries have financial strength ratings of A (Strong) or A- (Strong) from S&P and A (Strong) from Fitch. We employ a conservative investment policy and our portfolio primarily consists of high grade fixed income securities. As of December 31, 2003, we had \$10,923 million of investments, consisting primarily of investment grade bonds with an average rating of A-. We believe our solid capital base and overall financial strength allow us to distinguish ourselves from our competitors and continue to enable us to attract clients that are seeking long-term financial stability.

*Experienced Management Team with Proven Track Record and Entrepreneurial Culture.* We have a talented and experienced management team both at the corporate level and at each of our business segments. Our management team is led by our President and Chief Executive Officer, J. Kerry Clayton, who has been with our Company or its predecessors for 33 years. Our senior officers have an average tenure of approximately 16 years with our Company and close to 24 years in the insurance and related risk management business. Our management team has successfully managed our business and executed on our specialized niche strategy through numerous business cycles and political and regulatory challenges. Our management team also shares a set of corporate values and promotes a common corporate culture that we believe enables us to leverage business ideas, risk management expertise and focus on regulatory compliance across our businesses. At the same time, we reward and encourage entrepreneurship at each business segment, accomplished in part by our long history of utilizing performance-based compensation systems.

**Growth Strategy**

Our objective is to achieve superior financial performance by enhancing our leading positions in our specialized niche insurance and related businesses. We intend to achieve this objective by continuing to execute the following strategies in pursuit of profitable growth:

Enhance Market Position in Our Business Lines;

Develop New Distribution Channels and Strategic Alliances;

Deploy Capital and Resources to Maintain Flexibility and Establish or Enhance Market Leading Positions;

Maintain Disciplined Pricing Approach; and

Continue to Manage Capital Prudently.

*Enhance Market Position in Our Business Lines.* We have leading market positions in several of our business lines. We have been selective in developing our product and service offerings and will continue to

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focus on providing products and services to those markets that we believe offer attractive growth opportunities. We will also seek to continue penetrating our target markets and expand our market positions by developing and introducing new products and services that are tailored to the specific needs of our clients. For example, we are developing products that are targeted to purchasers of recreational vehicles, cell phones and other consumer products. In addition, we will continue to market our products to our existing client base and seek to identify clients in new target markets such as Brazil, Mexico, Argentina and other countries with emerging middle class populations.

*Develop New Distribution Channels and Strategic Alliances.* We have a strong, multi-channel distribution network already in place with leading market participants. These relationships have been critical to our market penetration and growth. We will continue to be selective in developing new distribution channels as we seek to expand our market share, enter new geographic markets and develop new niche businesses. For example, we recently entered into a strategic alliance with GE Consumer Products, which will enable us to sell and administer extended service contracts for consumer electronics, major appliances and other consumer goods to General Electric's customers.

*Deploy Capital and Resources to Maintain Flexibility and Establish or Enhance Market Leading Positions.* We seek to deploy our capital and resources in a manner that provides us with the flexibility to grow internally through product development, new distribution relationships and investments in technology, as well as to pursue acquisitions. As we expand through internal growth and acquisitions, we intend to leverage our expertise in risk management, underwriting and business-to-business management, as well as our technological capabilities in running complex administration systems and support services.

*Maintain Disciplined Pricing Approach.* We intend to maintain our disciplined pricing approach by seeking to focus on profitable products and markets and by pursuing a flexible approach to product design. We continuously evaluate the profitability of our products, and we will continue to pursue pricing strategies and adjust our mix of businesses by geography and by product so that we can maintain attractive pricing and margins. We seek to price our products at levels in order to achieve our target profit objectives.

*Continue to Manage Capital Prudently.* We intend to manage our capital prudently relative to our risk exposure to maximize profitability and long-term growth in stockholder value. Our capital management strategy is to maintain financial strength through conservative and disciplined risk management practices. We do this through product design, strong underwriting and risk selection and prudent claims management and pricing. In addition, we will maintain our conservative investment portfolio management philosophy and properly manage our invested assets in order to match the duration of our insurance product liabilities. We will continue to manage our business segments with the appropriate level of capital required to obtain the ratings necessary to operate in their markets and to satisfy various regulatory requirements. We will also continue to evaluate ways to reduce costs in each of our business lines, including by streamlining the number of legal entities through which we operate.

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Our business is comprised of four operating business segments: Assurant Solutions; Assurant Health; Assurant Employee Benefits; and Assurant PreNeed. We also have a Corporate and Other segment. Our business segments and the related net earned premiums and other considerations and fees and other income and segment income before income tax generated by those segments are as follows for the periods indicated:

**Net Earned Premiums and Other Considerations and****Fees and Other Income by Business Segment**

	For the Year Ended December 31, 2003		For the Year Ended December 31, 2002	
	\$(In millions)	Percentage of Total	\$(In millions)	Percentage of Total
Assurant Solutions:				
Specialty Property	\$ 765	12%	\$ 583	10%
Consumer Protection	1,726	27	1,613	27
Total Assurant Solutions	2,491	39	2,196	37
Assurant Health:				
Individual	1,060	17	894	15
Small Employer Group	982	15	963	16
Total Assurant Health	2,042	32	1,857	31
Assurant Employee Benefits	1,310	21	1,307	22
Assurant PreNeed	534	8	543	9
Corporate and Other	11	0	25	1
Total Business Segments	\$6,388	100%	\$5,928	100%

**Segment Income (Loss) Before Income Tax by Business Segment**

	For the Year Ended December 31, 2003		For the Year Ended December 31, 2002	
	\$(In millions)	Percentage of Total	\$(In millions)	Percentage of Total
Assurant Solutions	\$ 189	73%	\$ 197	53%
Assurant Health	185	71	143	39
Assurant Employee Benefits	96	37	88	24
Assurant PreNeed	55	21	77	21
Corporate and Other	(266)	(102)	(135)	(37)
Total Business Segments	\$ 259	100%	\$ 370	100%

The amount of our total revenues segment income before and after income tax and total assets by segment and the amount of our revenues and long lived assets by geographic region is set forth in Note 20 to our consolidated financial statements.

*Assurant Solutions*

Assurant Solutions, which we began operating with the acquisition of American Security Group in 1980, has leadership positions or is aligned with clients who are leaders in creditor-placed homeowners insurance and related mortgage tracking services based on servicing volume, manufactured housing homeowners insurance based on number of homes built and debt protection administration based on credit card balances outstanding. We develop, underwrite and market our specialty insurance products and services through

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collaborative relationships with our clients (financial institutions, retailers, manufactured housing and automobile dealers, utilities and other entities) to their customers. We serve our clients throughout North America, the Caribbean and selected countries in South America and Europe.

Our principal business lines within our Assurant Solutions segment have experienced growth in varying degrees. Growth in premiums in the homeowners market has been driven by increased home purchase activity due to the low interest rate environment, appreciation in home values, an increasing percentage of the population purchasing homes generally and mortgage industry consolidation. The manufactured housing market has been more challenging because of a more restrictive lending environment with fewer lenders extending credit and increasingly strict underwriting standards being applied since the late 1990 s. Finally, the domestic consumer credit insurance market has been contracting due to an adverse regulatory environment; however, this decline has been offset somewhat by accelerating growth in the debt protection market. This adverse regulatory environment has included, in the last few years, many state regulatory interpretations that impose rigorous agent licensing requirements for employees of lenders who offer credit insurance products as well as federal legislation which dissuades, and various state laws that either dissuade or prohibit, financial institutions from financing single premium credit or other credit insurance on consumer or home loans secured by real estate. At a recent industry conference, a study was presented that projected growth in the U.S. debt protection market from \$500 million in 2000 to \$5 billion in 2005. In addition, as the global economy and consumer discretionary spending grows, the international market for consumer insurance is expected to grow. We believe that we are well positioned to benefit from the growth in our key business lines with our broad product and service offerings.

In Assurant Solutions, we provide specialty property and consumer protection products and services. In our specialty property solutions division, our strategy is to further develop our creditor-placed homeowners and manufactured housing homeowners insurance products and related services in order to maintain our leadership position or relationships with clients who are leaders and to gain market share in the mortgage and manufactured housing industries, as well as to develop our renters insurance product line. Renters insurance generally provides coverage for the contents of a renter s home or apartment and for liability. In our consumer protection solutions division, we intend to continue to focus on being a low-cost provider of debt protection administration services, to leverage our administrative infrastructure with our large customer base clients and to manage the switch from credit insurance programs to debt protection programs in the United States.

The following table provides net earned premiums and other considerations and fees and other income and other operating data for Assurant Solutions for the periods indicated:

	<b>For the Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	(in millions)		
Net earned premiums and other considerations:			
Specialty Property	\$ 733	\$ 552	\$ 452
Consumer Protection	1,629	1,525	1,454
Total	2,362	2,077	1,906
Fees and other income	129	119	98
Total	\$2,491	\$2,196	\$2,004

*Products and Services*

*Specialty Property Solutions.* We underwrite a variety of creditor-placed and voluntary homeowners insurance as well as property coverages on manufactured housing, specialty automobiles, including antique automobiles, recreational vehicles, including motorcycles and watercraft, and leased and financed equipment. We also offer complementary programs such as flood insurance, renters insurance and various other property coverages. We are a leading provider of creditor-placed and other collateral protection insurance programs

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based on number of homes built. These other collateral protection insurance programs may include those that protect a lender's interest in homes, manufactured homes and automobiles. We also offer 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. Many of our products and services are sold in conjunction with the sale or lease of the underlying property, vehicle or equipment by our clients. Our market strategy is to establish relationships with institutions who are leaders in their chosen markets and therefore can effectively and efficiently distribute our products and services to large customer bases. By aligning with these leaders, we benefit not only from their internally generated growth, but also from the growth they experience as acquirers of other companies or books of business in their respective markets.

The homeowners insurance product line is our largest line in the specialty property solutions division and accounted for approximately 13.9% of Assurant Solutions' net earned premiums for the year ended December 31, 2003. The primary program within this line is our creditor-placed homeowners insurance. Creditor-placed homeowners insurance generally consists of fire and dwelling insurance that we provide to ensure collateral protection to a mortgage lender in the event that a homeowner fails to purchase or renew homeowners insurance on a mortgaged dwelling. In our typical arrangements with our mortgage lender and servicer clients, we agree that we will monitor the client's mortgage loan portfolio over time to verify the existence of homeowners insurance protecting the lender's interest in the underlying properties. We have developed a proprietary insurance tracking and administration process to verify the existence of insurance on a mortgaged property. In situations where such mortgaged property does not have appropriate insurance and after notification to the mortgageholder of the failure to have such insurance, we issue creditor-placed insurance policies to ensure the mortgaged property is protected. We believe our technology and insurance processing expertise enables us to provide efficient and high quality tracking and administration services. We believe that we are a leader in insurance and mortgage tracking services based on the number of mortgage loans tracked.

We also provide fee-based services to our mortgage lender and servicer clients in the creditor-placed homeowners insurance administration area, which services are complementary to our insurance products. Our ability to offer these services is a critical factor in establishing relationships with our clients. The vast majority of our mortgage lender and servicer clients outsource their insurance processing to us. These fee-based services include receipt of the insurance-related mail, matching of insurance information to specific loans, payment of insurance premiums on escrowed accounts, insurance-related customer service, loss draft administration and other related services. Loss draft refers to the payment of insurance proceeds for a claim resulting from a loss to insured mortgage property. Our extensive use of technology includes specialized optical character recognition software, automated workflow processes and electronic data interchange processes. We use optical character recognition software and automated workflow processes to extract insurance data from various insurance forms. This information is used to update a client's insurance records and servicing system. This automation expedites the updating of the insurance information. We use electronic data interchange processes to update information on a client's tracking system as well to pay insurance premiums on escrow accounts. This process reduces paper inflow and also improves the accuracy rate and obviates the need for human intervention.

The second largest specialty property line in the specialty property solutions division is homeowners insurance for owners of manufactured homes, which accounted for approximately 9.3% of Assurant Solutions' net earned premiums for the year ended December 31, 2003. We primarily distribute our manufactured housing insurance programs utilizing three marketing channels. Our primary channel is the nation's leading manufactured housing retailers based on number of homes built. Through our proprietary premium rating technology, which is integrated with our clients' sales process, we are able to offer our property coverages at the time the home is being sold, thus enhancing our ability to penetrate the new home point-of-sale market place. We also offer our programs to independent specialty agents who distribute our products to individuals subsequent to new home purchases. Finally, we perform the collateral tracking, homeowners insurance placement and administration services for these leading manufactured housing lending organizations. Through these collaborative relationships, we place our homeowners coverage on the manufactured home in the event that the homeowner fails to obtain or renew homeowners coverage on the home. In a typical arrangement with

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a manufactured housing lending organization, we agree to monitor the organization's portfolio of loans over time to verify the existence of homeowners insurance protecting the organization's interest in the underlying manufactured homes.

We also provide voluntary homeowners insurance and voluntary manufactured housing homeowners insurance, which generally provide comprehensive coverage for the structure, contents and liability, as well as coverage for floods.

*Consumer Protection Solutions.* We offer a broad array of credit insurance programs, debt protection services and product warranties and extended service contracts, all of which are consumer-related, both domestically and in selected international markets. Consumer protection products and services accounted for approximately 69.0% of Assurant Solutions' net earned premiums for the year ended December 31, 2003. Credit insurance and debt protection programs generally offer a consumer a convenient option to protect a credit card or installment loan in the event of a disability, unemployment or death so that the amount of coverage purchased equals the amount of outstanding debt. Under the credit insurance program, the loan or credit card balance is paid off in the case of death and, in the case of unemployment or disability, payments are made on a loan until the covered holder is employed again or medically able to return to work. Under the terms and conditions of a debt protection agreement, the monthly interest due from a customer may be waived or the monthly payments may be paid for a covered life event, such as disability, unemployment or family leave. Most often in the case of the death of a covered account holder, the debt is extinguished under the debt protection program. Coverage is generally available to all consumers without the underwriting restrictions that apply to term life insurance. Term life insurance is life insurance written for a specified period and under which no cash value is generally available on surrender, such as medical examinations and medical history reports. We are the exclusive provider of debt protection administration services and credit insurance for four of the six largest general purpose credit card issuers in the United States based on credit card balances outstanding.

Almost all of the largest credit card issuing institutions in the United States have switched from offering credit insurance to their credit card customers to offering their own banking-approved debt protection programs. Assurant Solutions has been able to maintain all of its major credit card clients as they switched from our credit insurance programs to their debt protection programs. We earn fee income rather than net earned premiums from our debt protection administration services. In addition, margins are lower in debt protection administration than in traditional credit insurance programs. However, because debt protection is not an insurance product, certain costs, such as regulatory costs and costs of capital, are expected to be eliminated as the transition from credit insurance to debt protection administration services continues. The fees from debt protection administration do not fully compensate for the decrease in credit insurance premiums. In addition, we continue to provide credit insurance programs for many leading retailers, consumer finance companies and other institutions who are involved in consumer lending transactions. For the year ended December 31, 2003 compared to the year ended December 31, 2002, our net earned premiums in the U.S. credit insurance business decreased by approximately \$178 million while debt protection fee income increased by \$21 million. However, the decrease in credit insurance net earned premiums is not analogous to the increase in debt protection fee income because in the credit insurance business we bear insurance risk and pay claims, whereas in the debt protection business we bear no insurance risk and we collect fees for the administrative services we render.

We also underwrite, and provide administration services on, warranties and extended service contracts on appliances, consumer electronics, including personal computers, cellular phones and other wireless devices, and vehicles, including automobiles, recreational vehicles and boats. Our strategy is to provide our clients with all aspects of the warranty or extended service contract, including:

program design;

marketing strategy;

technologically advanced administration;

claims handling; and

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customer service.

We believe that we maintain a unique differentiated position in the marketplace as a provider of both the required administrative infrastructure and insurance underwriting capabilities.

On September 26, 2003, Assurant Solutions entered into an agreement with General Electric to become the obligor and insurer of all extended service contracts issued directly by entities of GE Consumer Products and their clients. In addition, Assurant Solutions has become the administrator of service contracts covering personal computer products as well as a variety of lawn and garden products.

*Marketing and Distribution*

Assurant Solutions markets its insurance programs and administration services directly to:

large financial institutions;

mortgage lenders and servicers;

credit card issuers;

finance companies;

automobile retailers;

consumer electronics retailers;

manufactured housing lenders, dealers and vertically integrated builders; and

other institutions.

Assurant Solutions enters into exclusive and other distribution agreements, typically with terms of one to five years, and develops interdependent systems with its clients that permit Assurant Solutions' information systems to interface with its clients' systems in order to exchange information in a seamless and integrated manner. For example, in our manufactured housing business, Assurant Solutions has developed a technology that interfaces its policy management system into its clients' loan administration platforms. These interdependent systems result in more automated and efficient data tracking and processing. Through its long-standing relationships, Assurant Solutions has access to numerous potential policyholders and, in collaboration with its clients can tailor its products to suit various market segments. Assurant Solutions maintains a dedicated sales force that establishes and maintains relationships with its clients. Assurant Solutions has a multiple step business development process that is employed by its direct sales force. This multiple step business development process is a sales methodology for contacting, negotiating and consummating business relationships with new clients and enhancing business relationships with existing clients. Assurant Solutions maintains a specialized consumer acquisition marketing services group that manages its direct marketing efforts on behalf of its clients.

In the United States, we have strong distribution relationships with six out of the ten largest mortgage lenders and servicers based on servicing volume, four out of the seven largest manufactured housing builders based on number of homes built, four out of the six largest general purpose credit card issuers based on credit card balances outstanding and five out of the ten largest consumer electronics and appliances retailers based on combined product sales, with an average relationship of at least 10 years.

*Underwriting and Risk Management*

We, along with Assurant Solutions' predecessors, have over 50 years of experience in providing specialty insurance programs and therefore maintain extensive proprietary actuarial databases and catastrophe models. We believe these databases and catastrophe models enable us to better identify and quantify the expected loss experience of particular products and are employed in the design of our products and the establishment of rates.





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We have a disciplined approach to the management of our property product lines. We vigilantly monitor pricing adequacy on a product by region, state, risk and producer. Subject to regulatory considerations, we seek to make timely commission, premium and coverage modifications where we determine them to be appropriate. In addition, we maintain a segregated risk management area for property exposures whose emphasis includes catastrophic exposure management, reinsurance purchasing and analytical review of profitability based on various catastrophe models. We do not underwrite in our creditor-placed homeowners insurance line, as our contracts with our clients require that we automatically issue these policies, after notice, when a policyholder's homeowners policy lapses or is terminated.

A distinct characteristic of our credit insurance programs is that the majority of these products have relatively low exposures. This is because policy size is equal to the size of the installment loan or credit card balance. Thus, loss severity for most of this business is low relative to other insurance companies writing more traditional lines of insurance. For those product lines where there is exposure to catastrophes (for example, our homeowners policies), we closely monitor and manage our aggregate risk exposure by geographic area and have entered into reinsurance treaties to manage our exposure to these types of events.

Also, a significant portion of Assurant Solutions' consumer protection solutions contracts are written on a retrospective commission basis, which permits Assurant Solutions to adjust commissions based on claims experience. Under this contingent commission arrangement, as permitted, 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 Assurant Solutions, which we believe aligns our clients' interests with ours and helps us to better manage risk exposure.

In Assurant Solutions, our claims processing is highly 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 automated feedback to help with risk assessment and pricing. In our specialty property solutions division, we complement our automated claims processing with field representatives who manage the claims process on the ground where and when needed.

***Assurant Health***

Assurant Health, which we began operating with the acquisition of Time Holdings, Inc. (now Fortis Insurance Company) in 1978, is a writer of individual and short-term major medical health insurance. We also provide small employer group health insurance to employer groups primarily of two to fifty employees in size, and health insurance plans to full-time college students. Our predecessor company first issued medical insurance coverage to individuals in 1912. We serve approximately 1.1 million people throughout the United States. We were one of the first companies to offer a Medical Savings Account (MSA) feature as part of our individual health products and we continue to be a provider of MSA-linked individual health policies. MSAs are tax-sheltered savings accounts earmarked for medical expenses and are established in conjunction with one of our PPO or indemnity products.

We expect growth in the health insurance market to be driven by inflation and increases in the cost of providing medical care as well as growth in demand for individual and small group medical products. We generally expect medical cost inflation to be a principal driver of growth in this market; however, reduced funding of health insurance by employers and the increasing attractiveness and flexibility of MSAs could create opportunities for the individual medical insurance market to expand. We believe that the number of persons covered by individually purchased health insurance as well as the number of small employer groups in the United States will increase primarily as a result of the recently passed Medicare Prescription & Modernization Act, which includes a provision for Health Savings Accounts (HSAs) that we believe will increase health insurance options available to consumers and make health insurance more affordable.

In Assurant Health, we intend to continue to concentrate on developing our product capabilities in the individual health insurance market. From 2000 through 2003, we have increased the relative percentage of individual health insurance products to our total health insurance products from approximately 30% of premium dollars to approximately 50% of premium dollars. We have pursued a variety of distribution

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relationships focused on the individual health insurance market. We seek to maintain the lowest combined ratio of any of our major competitors serving the health care financing needs of individuals, families and small employer groups. We have made progress in achieving this goal and believe we currently have one of the lowest combined ratios in our industry based on the reported results of publicly-traded managed care and health insurance companies as of December 31, 2003.

The following table provides net earned premiums and other considerations, fees and other income and other operating data for Assurant Health for the periods and as of the dates indicated:

	For the Year Ended December 31,		
	2003	2002	2001
	(in millions except membership data)		
Net earned premiums and other considerations:			
Individual	\$ 1,036	\$ 880	\$ 738
Small employer group	973	954	1,100
Total	2,009	1,834	1,838
Fees and other income	33	23	14
Total	\$2,042	\$1,857	\$1,852
Operating statistics:			
Loss ratio(1)	65.6%	66.6%	71.1%
Expense ratio(2)	28.9%	29.4%	26.8%
Combined ratio(3)	93.3%	95.2%	97.3%
Membership by product line (in thousands):			
Individual	761	670	600
Small employer group	376	355	420
Total membership	1,137	1,025	1,020

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

*Products and Services*

*Individual Health Insurance Products.* Assurant Health's individual health 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. Due to increasingly stringent federal and state restrictions relating to insurance policies sold directly to individuals, we emphasize the sale of individual products through associations and trusts that act as the master policyholder for such products. Our association and trust products offer greater flexibility in pricing, underwriting and product design compared to products sold directly to individuals on a true individual policy basis.

Substantially all of the individual health insurance products we sell are PPO plans, which offer the member the ability to select any health care provider, with benefits reimbursed at a higher level when care is received from a participating network provider. Coverage is typically subject to co-payments or deductibles and coinsurance, with member cost sharing for covered services limited by lifetime policy maximums of

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\$2 million or \$3 million, with options to purchase between \$6 million and \$8 million. Product features often included in these plans are inpatient pre-certification and benefits for preventative services. These products are individually underwritten taking into account the member's medical history and other factors, and consist

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primarily of major medical insurance that renews on an annual basis. The remaining products we sell are indemnity, or fee-for-service, plans. Indemnity plans offer the member the ability to select any health care provider for covered services.

At December 31, 2003 and 2002, we had total in force medical certificates of 304,400 and 264,100, respectively, covering approximately 613,000 and 520,000 individuals, respectively. Approximately 15% and 14% of the individual health insurance products we sold in 2003 and 2002, respectively, included an MSA.

Assurant Health markets additional products to the individual market: short-term medical insurance and student health coverage plans. 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 with gaps in coverage for six 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 Employer Health Insurance Products.* Our small employer market primarily includes companies with two to fifty employees, although larger employer coverage is available. Our average group size, as of December 31, 2003, was approximately 5 employees. In the case of our small employer group medical insurance, we underwrite the entire group and examine the medical risk factors of the individuals in the group for forecasting and reserving purposes.

Substantially all of the small employer health insurance products that we sold in 2002 and 2003 were PPO products. At December 31, 2003 and 2002, we had total in force medical certificates of 205,300 and 196,500, respectively, covering approximately 376,000 and 355,000 individuals, respectively. The number of small employer groups as of December 31, 2003 and 2002 were approximately 37,700 and 37,400, respectively.

We recently introduced Health Reimbursement Accounts (HRAs), which are employer-funded accounts provided to employees for reimbursement of qualifying medical expenses. We also offer certain ancillary products to meet the demands of small employers for life insurance, short-term disability insurance and dental insurance. In addition, beginning in January 2004, we began offering HSA products to individuals and small employer groups.

*Marketing and Distribution*

Our health insurance products are principally marketed to an extensive network of independent agents by Assurant Health distributors. Approximately 150,000 agents had access to Assurant Health products during the 2003 calendar year. 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, Assurant Health has had an exclusive national marketing agreement with Insurance Placement Service, Inc. (IPSI), a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company (State Farm), pursuant to which IPSI captive agents market Assurant Health's 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 with IPSI will expire in July 2004, but may be extended if agreed to by both parties. In addition, Assurant Health has exclusive distribution relationships with United Services Automobile Association (USAA) and Mutual of Omaha to market Assurant Health's individual health products. The agreement that provides for our arrangement with USAA terminates in July 2005, but may be extended for a one-year period if agreed to by both parties. The agreement that provides for our arrangement with Mutual of Omaha terminates in February 2007 but may be extended if agreed to by both parties. All of these arrangements have four-year terms from their commencement dates and are generally terminable upon our bankruptcy or similar proceeding or a breach of a material provision by us. Additionally, some of these arrangements permit termination after a specified notice period. We also have a solid relationship with Health Advocates Alliance, the association through which we provide many of our individual health insurance products through Assurant Health's agreement with Health Advocates Alliance's administrator National

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Administration Company, Inc. The term of this agreement with National Administration Company will expire in September 2006, 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. Assurant Health also has had a long-term relationship with Rogers Benefit Group, a national marketing organization with 70 offices. Short-term medical insurance and student health coverage plans are also sold through the Internet by Assurant Health and numerous direct writing agents.

*Underwriting and Risk Management*

Assurant Health's underwriting and risk management capabilities include pricing discipline, policy underwriting, renewal optimization, development and retention of provider networks and claims 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. State rate regulation significantly affects pricing. Our health insurance operations are subject to a variety of legislative and regulatory requirements and restrictions covering a range of trade and claim settlement practices. State insurance regulatory authorities have broad discretion in approving a health insurer's proposed rates. In addition, HIPAA requires certain guaranteed issuance and renewability of health insurance coverage for individuals and small employer groups and limits exclusions based on existing conditions.

In our individual health insurance business, we medically underwrite our applicants and have implemented new programs to improve our underwriting process. These include our tele-underwriting program, which enables individual insurance applicants to be interviewed over the telephone by trained underwriters. Gathering information directly from prospective clients over the telephone greatly reduces the need for costly and time-consuming medical exams and physician reports. We believe this approach leads to lower costs, improved productivity, faster application processing times and improved underwriting information. Our individual underwriting considers not only an applicant's medical history, but also lifestyle factors such as avocations and alcohol and drug and tobacco use. Our individual health insurance products generally permit us to rescind coverage if an insured has falsified his or her application.

In our small employer group health insurance business, we underwrite the group on the basis of demographic factors such as age, gender, occupation and geographic location and concentration of the group. In addition, we examine individual-level medical risk factors for forecasting and reserving purposes.

Assurant Health offers a broad choice of PPO network options in each of its markets and enrolls members in the network that Assurant Health believes reduces our price paid for health care services while providing high quality care. Assurant Health enrolls indemnity customers in selected PPO networks to obtain discounts on provider services that would otherwise not be available. In situations where a customer does not obtain services from a contracted provider, Assurant Health applies various usual and customary fees, which limit the amount paid to providers within specific geographic areas.

Provider network contracts are a critical dimension in controlling medical costs since there is often a significant difference between a network negotiated rate and the non-discounted rate. To this end, we retain provider networks through a variety of relationships, which include leased networks that contract directly with individual health care providers, proprietary contracts and Private Health Care Systems, Inc. (PHCS). PHCS is a national private company that maintains a provider network, which consisted of approximately 3,700 hospitals and approximately 400,000 physicians as of December 31, 2003. Assurant Health was a co-founder of PHCS, and as of December 31, 2003 we owned approximately 25% of the company. PHCS has a staff solely dedicated to provider relations.

We seek to manage claim costs in our PPO plans by selecting provider networks that have negotiated favorable arrangements with physicians, hospitals and other health care professionals and requiring participation in our various medical management programs. In addition, we manage costs through extensive

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underwriting, pricing and product design decisions intended to influence the behavior of our insureds. We provide case management programs and have doctors, nurses and pharmacists on staff who endeavor to manage risks related to medical claims and prescription costs.

We 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. Our case management philosophy is built on helping our insureds confront a complex care system to find the appropriate care in a timely and cost effective manner. We believe this approach builds positive relationships with our providers and insureds and helps us achieve cost savings.

Effective July 1, 2003, Assurant Health transitioned its pharmacy benefits management function to Medco Health Solutions, formerly known as Merck-Medco. Medco Health Solutions has established itself as a leader in its industry with more than 57,000 participating pharmacies nationwide. Through Medco Health Solutions' advanced technology platforms, Assurant Health is able to access information about customer utilization patterns on a more timely 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. Assurant Health also utilizes co-payments and deductibles to reduce prescription drug costs.

We employ approximately 525 claims employees in locations throughout the United States dedicated to Assurant Health. We have an appeals process pursuant to which policyholders can appeal claims decisions made.

***Assurant Employee Benefits***

Assurant Employee Benefits, which we began operating with the acquisition of Mutual Benefit Life Group Division (now Fortis Benefits Insurance Company) in 1991, is a market leader in group dental benefit plans sponsored by employers and funded through payroll deductions based on number of subscribers and based on the number of master contracts in force. We are also a leading provider of disability and term life insurance products and related services to small and medium-sized employers based on number of master contracts in force.

In our core benefits business, we focus on employer-sponsored programs for employers with typically between 20 and 1,000 employees. We are willing to write programs for employers with more than 1,000 covered employees when they meet our risk profile. At December 31, 2003, substantially all of our coverages in force and 77% of our annualized premiums in force were for employers with less than 1,000 employees. We have a particularly strong emphasis on employers with fewer than 250 employees, which represented approximately 96% and 59% of our in force coverages and premiums, respectively, as of December 31, 2003. Our average in force case size was 57 enrolled employees as of December 31, 2003.

We believe that the small employer market is growing, and that there is no dominant player in the small group market. We believe that growth in our Assurant Employee Benefits segment will be principally driven by increases in the numbers of employees enrolled in our plans, inflation and increases in the cost of providing dental care and, for our group disability and term life business, increases in salaries. We believe that increased penetration of our target employer base could generate growth for this segment. According to the 2003 National Compensation Survey conducted by the Bureau of Labor Statistics, U.S. Department of Labor, in March 2003, 41% of full-time non-agricultural private industry employees lack employer provided or sponsored life insurance coverage, 55% lack short-term disability coverage, 64% lack long-term disability coverage and 60% lack dental coverage. During 2002, according to National Association of Dental Plans and Life Insurance Marketing Research Association studies, approximately \$7.2 billion in annualized premiums of group dental, disability and life insurance was sold in the United States. Exclusive of group dental, for which historical data from these sources is not available, the average annual growth rate in sales of the remaining group products for 2000 through 2002 was 5.4% per year. We believe that our broad product and distribution coverage and our expertise in small case underwriting will position us favorably as these markets continue to grow.

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In Assurant Employee Benefits, we intend to build upon our position in the employee-paid dental lines, where we have seen higher profits than in the employer-paid lines, in order to expand and grow our portfolio of other employee-paid product offerings and service capabilities. We are also focusing our efforts on achieving greater bottom line profitability for our disability product offerings.

Trends in the U.S. employment market and, in particular, in the cost of the medical benefits component of total compensation, are leading an increasing number of employers to offer new benefits on a voluntary basis. That is, after originally vetting the insurer and typically selecting the particular plan features to be offered, the employer offers the new benefits to employees at their election and at their cost, administered through payroll deduction. Because these products can be economically distributed on this group basis and are convenient to purchase and maintain, they are appealing to employees who might have little opportunity or inclination to purchase similar coverage on an individual basis.

We believe that voluntary products represent a sizeable growth opportunity. Soliciting employees to enroll in employer-sponsored health plans requires effective communication and interaction with the target employee. We have reorganized our home office and sales operations to reflect the strategic importance of this area. As part of this reorganization, we have divided our sales force into those who sell voluntary products and those who sell true group products with each division collaborating with the other to help meet the needs of shared brokers and clients. True group products are group insurance products in which the employer or other group policyholder pays all or part of the premium on behalf of the insured members. Voluntary and true group representatives collaborate with each other in developing relationships with and providing service to the intermediaries selected by our targeted customers, many of whom are not specialists in either voluntary or true group coverages. In addition, we have subdivided our home office underwriting areas between voluntary and true group product lines, with each side providing underwriting service to the respective group representatives. We are also investing resources in enhanced enrollment and specialized administrative capabilities for the voluntary market.



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The following table provides net earned premiums and other considerations, fees and other income and other operating data for Assurant Employee Benefits for the periods and as of the dates indicated:

	For the Year Ended December 31,		
	2003	2002(4)	2001(4)
(in millions, except master contract data)			
Net earned premiums and other considerations:			
Group dental	\$ 539	\$ 554	\$ 257
Group disability	461	400	398
Group life	256	279	279
<b>Total</b>	<b>1,256</b>	<b>1,233</b>	<b>934</b>
Fees and other income	54	74	39
<b>Total</b>	<b>\$ 1,310</b>	<b>\$ 1,307</b>	<b>\$ 973</b>
Operating statistics:			
Loss ratio(1)	73.3%	76.6%	79.0%
Expense ratio(2)	33.1%	32.3%	32.5%
Premium persistency ratio(3)	79.9%	79.9%	84.3%
Number of direct master contracts (rounded to the nearest 100):			
Group dental	29,300	30,300	12,500
Group disability	25,400	27,300	28,700
Group life	25,200	25,600	25,500
<b>Total</b>	<b>79,900</b>	<b>83,200</b>	<b>66,700</b>

- (1) The loss ratio is equal to policyholder benefits divided by net earned premiums and other considerations.
- (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.
- (3) The premium persistency ratio is equal to the rate at which existing business for all issue years at the beginning of the period remains in force at the end of the period. The calculation for the year ended December 31, 2002 and 2001 excludes the Dental Benefits Division (DBD) of Protective Life Corporation.
- (4) The results of DBD, which we acquired on December 31, 2001, and the results of CORE, which we acquired on July 12, 2001, are included in the financial results of the Assurant Employee Benefits segment beginning in 2002 and July 2001, respectively. DBD at the time of acquisition was a leading provider of voluntary (employee-paid) indemnity dental and prepaid dental coverage for employee groups. CORE at the time of acquisition was a leading national provider of employee absence management services and a major provider of disability reinsurance management services to middle-market insurance carriers.

*Products and Services*

*Group Dental.* Dental benefit plans provide for the funding of necessary or elective dental care. We provide both employee-paid and employer-paid plans. Plans may involve a traditional indemnity arrangement, a PPO arrangement, a prepaid arrangement, or some combination of these programs with employee choice. In a PPO plan, insureds may select any dental provider, but benefits are reimbursed at a higher level when they visit a provider who participates in the PPO. Coverage is subject to deductibles, coinsurance and annual or lifetime maximums. In a prepaid plan, members must go to participating dentists in order to receive



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benefits. Depending upon the procedure, dental benefits are provided by participating dentists at either no cost or a nominal co-payment.

Success in the group dental business requires strong provider network development and management skills, a focus on expense management and a claim system capable of efficiently and accurately adjudicating high volumes of transactions. We own and operate a PPO, Dental Health Alliance, L.L.C., which as of October 1, 2003 had approximately 26,700 referable locations and approximately 18,500 participating dentists nationwide. In addition, we have a marketing arrangement with an independent PPO that adds another approximately 1,700 referable locations and approximately 1,400 participating dentists nationwide. We have also developed local managed care networks in 24 states, which, as of October 1, 2003, collectively involved approximately 13,400 referable locations and approximately 8,700 participating dentists. The number of referable locations in our dental PPO and managed care networks has grown by approximately 35% and 10%, respectively, from January 1, 2000 to October 1, 2003. We have also developed local managed care networks in 25 states.

In addition to fully insured dental benefits, we also offer administrative services only (ASO) for self-funded dental plans. Under these arrangements, the employers or plan sponsors pay Assurant Employee Benefits a fee for providing these services. The self-funded plan is responsible for the claim liability. ASO dental is a viable product option for employers with 100 or more employees. As of December 31, 2003, our block of this business consisted of approximately 200 groups and approximately 92,000 covered employees and, for the year ended December 31, 2003, generated \$6.6 million of fee revenue.

As of December 31, 2003 and 2002, we had approximately 29,300 and 30,300 group dental plans insured or administered through this segment, respectively, covering or involving in each case approximately 1.4 million members.

*Group Disability Insurance.* Group disability insurance provides partial replacement of lost earnings for insured employees who become disabled and otherwise qualify for benefits. Our group disability products include both short-term and long-term disability insurance. Group long-term disability insurance provides employees with insurance coverage for loss of income in the event of extended work absences due to sickness or injury. Most policies begin providing benefits following 90 or 180 day waiting periods, and benefits are limited to specified maximums as a percentage of income. Group short-term disability insurance provides coverage for temporary loss of income due to injury or sickness, often effective immediately for accidents and after one week for sickness, for up to 26 weeks, also limited to specified maximums as a percentage of income. As a reflection of both the breadth of our disability product lines and our desire to diversify our risks, we market our disability products across all major industry segments.

Disability Reinsurance Management Services, Inc., our wholly owned subsidiary, provides insurance carriers that wish to supplement their core product offerings a turnkey facility with which to write group disability insurance. Services we provide to the insurers for a fee include product development, state insurance regulatory filings, underwriting, claims management or any of the other functions typically performed by an insurer's back office. The risks written by DRMS various clients are reinsured into a pool, with the clients generally retaining shares ranging from 0% to 50% of the risks they write. At times, the ceding insurer may also be a reinsurer of one or more of the pools. As the largest reinsurer in the pools, our licensed insurance subsidiaries reinsure a substantial majority of the insurance risk that is ceded by the client. Since DRMS clients operate in niches not often reached through our traditional distribution, our participation in the pools enables us, through a form of alternate distribution, to reach customers to whom we would not otherwise have access. In this reinsurance arrangement, we manage through DRMS both underwriting and the claims adjudication process; therefore, we have more control of critical risk management processes than is normally available in reinsurance arrangements.

As of December 31, 2003 and 2002, we had approximately 37,500 and 39,100 group disability plans in force, reinsured or administered on an ASO basis, covering approximately 2.7 million and 3.0 million enrolled employees, respectively.

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*Group Term Life Insurance.* Group term life insurance is one of the principal means by which working people in the United States provide for their families against the risk of premature death and often the means whereby they obtain lesser amounts of coverage for their spouses, children or domestic partners. Group term life insurance provides coverage to employees, with limited coverage also available to their dependents, for a specified period. Our policies are generally the standard or basic term life insurance offered by employers. Group term life insurance consists primarily of renewable term life insurance, which is term life coverage that is renewable at the option of the insured who is not required to take a medical examination in order to renew existing amounts of coverage, with the amount of coverage as a flat amount, an amount linked to the employees' earnings, or a combination of the two. Employers generally provide a base or foundation level of coverage for their employees and offer the opportunity for employees to increase their coverage to meet specific needs. Also, basic term life insurance is often supplemented with an accidental death or dismemberment policy or rider, which provides additional benefits in the indicated events. Because there are few ways to differentiate an insurer in the area of traditional group term life insurance, we often sell this product line as a complement to our other core employee benefit insurance products.

As of December 31, 2003 and 2002, we had approximately 25,200 and 25,600 group life plans in force, covering approximately 1.7 million and 2 million enrolled employees, respectively.

*Marketing and Distribution*

We distribute the products of Assurant Employee Benefits primarily through approximately 160 group sales representatives, located in 40 offices in or near major U.S. metropolitan areas. These representatives work through independent employee benefits advisors, including brokers and other intermediaries, to reach our customers, who are primarily small to medium-sized employers. DRMS employs an independent distribution arm tailored to its needs.

Our marketing efforts concentrate on:

- the identification of the employee benefit needs of our targeted customers;
- the development of tailored products and services designed to meet those needs;
- the alignment of our Company with select brokers and other intermediaries who value our approach to the market; and
- the promotion of our Company's brand.

To compete effectively in the small to medium-sized employer marketplace requires a large and broadly distributed sales force with relationships with the brokers and other intermediaries who act as advisors to those employers in connection with their benefits programs. In many cases, these employers and their advisors rely on us for expertise in matching their needs to the collection of solutions available through group benefit programs. Competing effectively also requires systems and work practices suited to a high transaction volume business and the ability to provide a high level of customer service to a large number of clients operating in almost all industries found in the U.S. economy.

*Underwriting and Risk Management*

True group products are normally offered to employees on a guaranteed issue basis, meaning that if the group is an acceptable risk, the insurer generally foregoes individual medical underwriting and agrees in advance to accept all applications for insurance from members of the eligible class up to a formula-determined limit. Individual medical underwriting is required on applications for amounts in excess of this limit, or in connection with untimely applications. Our sales representatives and underwriters evaluate the risk characteristics of each prospective insured group and design appropriate plans of insurance. They utilize various techniques such as deductibles, co-payments, guarantee issue limits and waiting periods to control the risk we assume. Voluntary products introduce additional risks due to the fact that employees have some awareness of the risk of loss they personally face, and those employees who believe themselves to be more at risk will be more likely to elect coverage. In order to manage these risks, we customize our plan designs to seek to mitigate

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adverse selection problems. We also require that a minimum percentage of eligible employees elect a voluntary coverage.

We base the pricing of our products on the expected pay-out of benefits that we calculate using assumptions for mortality, morbidity, interest, expenses and persistency, depending upon the specific product features. Group underwriting takes into account demographic factors such as age, gender and occupation of members of the group as well as the geographic location and concentration of the group. Our disability policies often limit the payment of benefits for certain kinds of conditions, such as pre-existing conditions or disabilities arising from specifically listed medical conditions, in each case as defined in the policies.

Generally, we are not obligated to accept any risk or group of risks from, or to issue a policy or group of policies to, any employer or intermediary. Requests for coverage are reviewed on their merits and generally a policy is not issued unless the particular risk or group has been examined and approved by our underwriters. Group products are typically written with an initial rate guarantee of two years for disability and life insurance and one year for other group products. They are also written on a guaranteed renewable basis, meaning that they are renewable at the option of the insured for a specified number of years, with the right, upon expiration of the guarantee, to re-price to reflect the aggregate experience of our block of business and, where credible, the experience of the group. Credibility in this context means the assessment of the likelihood that the past history of the group is predictive of the future experience of the group. Credibility generally increases with group size or with the quantity of claims filed.

The business underwritten by our Assurant Employee Benefits segment is widely dispersed across geographic areas as well as the industries insured. At December 31, 2003, our top ten states measured by percentage of in force annual premiums contributed approximately 54.5% of our total annualized premiums in force, as detailed below:

State	Percentage of Total Annualized Premiums in Force
California	11.5%
Texas	7.2
Minnesota	6.2
Florida	4.8
Michigan	4.6
New York	4.5
Illinois	4.5
Ohio	4.4
Wisconsin	3.4
Tennessee	3.4
	—
Total	54.5%

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Similarly, at December 31, 2003, our top ten industry segments measured by percentage of in force annual premiums contributed approximately 49.5% of our total annualized premiums in force, as detailed below:

SIC Code	Percentage of Total Annualized Premiums in Force
80 (Health Services)	9.3%
82 (Educational Services)	8.5
87 (Engineering, Accounting, Management, etc.)	5.9
73 (Business Services)	5.4
50 (Wholesale Trade-Durable)	4.3
91 (Government Services)	4.1
81 (Legal Services)	3.9
86 (Membership Organizations)	2.8
83 (Social Services)	2.7
60 (Depository Institutions)	2.6
Total	49.5%

Our efforts are focused on facilitating claimants' return to work through a variety of means, including physical therapy, vocational rehabilitation and retraining and workplace accommodation to assist the insured. We believe that we were the first U.S. insurance company to develop and market disability insurance contracts aimed explicitly at facilitating recovery of functionality and vocational rehabilitation when disabilities occur. In support of this effort, we also employ or contract with a staff of doctors, nurses and vocational rehabilitation specialists. We also utilize a broad range of outside medical and vocational experts for independent evaluations and local vocational services. Finally, we have an investigations unit focused on individuals who have or may be capable of returning to work but continue to claim benefits. Our dental business utilizes a highly automated claims system focused on rapid handling of claims, with 69% of claims adjudicated within seven calendar days for claims received from January 1, 2003 to and including December 31, 2003.

We employ approximately 800 claims employees in locations throughout the United States dedicated to the Assurant Employee Benefits segment. We have a claims review process, including an appeals process pursuant to which policyholders can appeal claims decisions made.

***Assurant PreNeed***

Assurant PreNeed, which we began operating with the acquisition of United Family Life Insurance Company in 1980, is the market leader in the United States in pre-funded funeral insurance based on face amount of new policies sold. Pre-funded funeral insurance provides whole life insurance death benefits or annuity benefits used to fund costs incurred in connection with pre-arranged funerals. An annuity is a contract that provides for periodic payments to an annuitant for a specified period of time. In the case of annuities sold by Assurant PreNeed, all the benefits under the contract are generally paid out at the death of the purchaser of the annuity. We distribute our pre-funded funeral insurance products through two separate channels, our independent channel and our American Memorial Life Insurance Company (AMLIC) channel. Our pre-funded funeral insurance products provide benefits to cover the costs incurred in connection with pre-arranged funeral contracts, which are arrangements between funeral firms and individuals whereby the funeral firms agree to perform selected funerals upon the individuals' death, and are distributed primarily through funeral homes and sold mainly to consumers over the age of 65, with an average issue age of 72. Our pre-funded funeral insurance products are typically structured as whole life insurance policies in the United States and as annuity products in Canada. Our independent channel's target market is comprised of the 23,000 funeral firms in the United States and Canada, of which approximately 2,000 are active customers.

With our acquisition of AMLIC in 2000, we have become the market leader in the area of pre-funded funeral insurance based on face amount of policies sold. Through our AMLIC channel, we provide the



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insurance products and support services for the pre-need activities of SCI, the largest funeral provider in North America based on total revenues. As of December 31, 2003, SCI operated approximately 1,800 funeral service locations, cemeteries and crematoria in North America. This commission-based arrangement is anchored by an exclusive ten-year marketing agreement, which commenced on October 1, 2000.

According to public filings, published statistics and our own internal estimates, we believe the U.S. market for insurance funded pre-need policies in 2002 was approximately \$2.0 billion based on the face amount of policies sold. According to Conning's Industry Insight, an industry publication, the pre-funded funeral insurance industry grew by approximately 2.9% annually from 1992 to 2000. We believe the pre-need market will continue to grow at approximately this level in the future. Growth in pre-need sales has been traditionally driven by distribution with a high correlation between new sales of pre-funded funeral insurance and the number of pre-need counselors marketing the product and expansion in sales and marketing capabilities. In addition, as alternative distribution channels are identified, such as targeting affinity groups and employers, we believe growth in this market could accelerate. We believe that the pre-need market is characterized by an aging population combined with low penetration of the over-65 market.

In Assurant PreNeed, our strategy in our independent channel is to increase sales potential by strengthening our distribution relationships. We do this by offering marketing support and programs to our funeral firm clients to increase their local market share, providing training for their sales counselors and assisting them in developing direct-to-consumer marketing programs and lead generation and management tools. Through our AMLIC channel our strategy is to reduce SCI's cost to sell and manage its pre-need operation. We do this by integrating our processes for managing SCI's insurance production into its process for managing its pre-need business. Additionally, in keeping with our goal of aligning SCI's interest with ours, our arrangement with SCI is commission-based; however, we compensate SCI with an escalating production-based commission, with a defined maximum.

The following table provides net earned premiums and other considerations, fees and other income and other operating data for Assurant PreNeed for the periods and as of the dates indicated:

	<b>For the Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	(in millions)		
Net earned premiums and other considerations:			
AMLIC	\$ 283	\$ 293	\$ 278
Independent	246	245	229
Total	529	538	507
Fees and other income			
Total	\$ 5	\$ 5	\$ 3
New face sales (life and annuity) net of reinsurance:			
AMLIC	\$ 308	\$ 392	\$ 372
Independent and other	312	319	258
Total	\$ 620	\$ 711	\$ 630
Policies in force	1.71	1.69	1.67
Policyholder liabilities	\$2,996	\$2,717	\$2,499

*Products*

*Pre-Funded Funeral Insurance Policies.* Pre-funded funeral insurance provides whole life insurance death benefits or annuity benefits to fund the costs incurred in connection with pre-arranged funeral contracts, or, in a minority of situations, pre-arranged funerals without a pre-arranged funeral contract, which costs typically include funeral firm merchandise and services. Our pre-funded funeral insurance products



are typically structured as whole life insurance policies in the United States. In Canada, for regulatory reasons, our

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pre-funded funeral insurance products are typically structured as annuity contracts for newly issued business. A pre-arranged funeral contract is an arrangement between a funeral firm and an individual whereby the funeral firm agrees to perform the selected funeral upon the individual's death. The consumer then purchases an insurance policy intended to cover the cost of the pre-arranged funeral, and the funeral home generally becomes the irrevocable assignee, or, in certain cases, the beneficiary, of the insurance policy proceeds. However, the insured may name a beneficiary other than the funeral home. The funeral home agrees to provide the selected funeral at death in exchange for the policy proceeds. Because the death benefit under many of our policies is designed to grow over time, the funeral firm that is the assignee of such a policy has managed some or all of its funeral inflation risk. Consumers have the choice of making their policy payments as a single lump-sum payment or through multi-payment plans that spread payments out over a period of three to ten years. We do not provide any funeral goods and services in connection with our pre-funded funeral insurance policies; these policies pay death benefits in cash only.

### *Marketing and Distribution*

We distribute our pre-funded funeral insurance products through two distribution channels: the independent channel, which distributes through approximately 2,000 funeral homes and selected third-party general agencies, and our AMLIC channel, which distributes through an exclusive relationship with approximately 1,300 SCI-owned locations in North America. Our policies are sold by licensed insurance agents or enrollers who in some cases may also be a funeral director. As of December 31, 2003 and 2002, the face amount of our contracts sold through our AMLIC channel represented approximately 50% and 55%, respectively, of our total new life and annuity face sales in Assurant PreNeed.

### *Risk Management*

Assurant PreNeed generally writes whole life insurance policies with increasing death benefits and obtains the majority of its profits through interest rate spreads. Interest rate spreads refer to the difference between the death benefit growth rates on pre-funded funeral insurance policies and the investment returns generated on the assets we hold related to those policies. To manage these spreads, we monitor weekly the movement in new money yields and monthly evaluate our actual net new achievable yields. This information is used by our business segment crediting committee to evaluate rates to be credited on applicable new and in force pre-funded funeral insurance policies and annuities. In addition, our business segment investment committee, including members of the crediting committee, we review asset benchmarks and perform asset/liability matching studies to develop the optimum portfolio to maximize yield and reduce risk.

In Assurant PreNeed, we utilize prudent underwriting to select and price insurance risks. We regularly monitor mortality assumptions to determine if experience remains consistent with these assumptions and to ensure that our product pricing remains appropriate. We continually review our underwriting, agent and policy contract provisions and pricing guidelines so that our policies remain competitive and supportive of our marketing strategies and profitability goals. Our underwriting policies rely on review procedures with actuarial personnel, in which actual loss experience is examined. Decisions are based on established actuarial pricing and risk selection principles to ensure that our underwriting and pricing guidelines are appropriate.

Many of our pre-funded whole-life funeral insurance policies have increasing death benefits. As of December 31, 2003, approximately 81% of Assurant PreNeed's in force insurance policy reserves relate to policies that provide for death benefit growth, some of which provide for minimum death benefit growth pegged to changes in the Consumer Price Index. Policies that have rates guaranteed to change with the Consumer Price Index represented approximately 13% of Assurant PreNeed's reserves as of December 31, 2003. We have employed risk mitigation strategies to seek to minimize our exposure to a rapid increase in inflation.

In our independent channel, we outsource all of the servicing and administration of our policies.

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### **Ceded Reinsurance**

Our operating business segments utilize ceded reinsurance for three major business purposes:

*Loss Protection and Capital Management.* As part of our overall risk and capacity management strategy, we purchase reinsurance for certain risks underwritten by our various operating business segments, including significant individual or catastrophic claims, and to free up capital to enable us to write additional business.

*Business Dispositions.* We have used reinsurance to exit certain businesses, such as our FFG division in 2001 and our LTC business in 2000. Reinsurance was used in these cases to facilitate the transactions because the businesses shared legal entities with business segments that we retained.

*Assurant Solutions Client Risk and Profit Sharing.* Assurant Solutions writes business produced by its clients, such as mortgage lenders and servicers and financial institutions, and reinsures all or a portion of such business to insurance subsidiaries of the clients. Such arrangements allow significant flexibility in structuring the sharing of risks and profits on the underlying business.

#### ***Loss Protection and Capital Management***

In a traditional indemnity reinsurance transaction, a reinsurer agrees to indemnify another insurer for part or all of its liability under a policy or policies it has issued for an agreed upon premium. These losses and loss expenses refer to the expenses of settling claims, including legal and other fees, and the portion of general expenses allocated to claim settlement costs plus losses incurred with respect to claims. These agreements provide for recovery of a portion of losses and associated loss expenses from reinsurers. The terms of these agreements, which are typical for agreements of this type, generally provide, among other things, for the automatic acceptance by the reinsurer of ceded risks in excess of our retention limits (i.e. the amount of loss per individual risk that we are willing to absorb). For excess of loss coverage, we pay premiums to the reinsurers based on rates negotiated and stated in the treaties. For pro rata reinsurance, we pay premiums to the reinsurers based upon percentages of premiums received by us on the business reinsured. These agreements are generally terminable as to new risks by us or by the reinsurer on appropriate notice; however, termination does not affect risks ceded during the term of the agreement, which generally remain with the reinsurer.

We work with our business segments to develop effective reinsurance arrangements that are consistent with their pricing and operational goals of each operating business segment. For example, Assurant Employee Benefits cedes 100% of monthly disability claims in excess of \$10,000 per individual insured. For our group term life business, the maximum amount retained on any one life is \$800,000 of life insurance including accidental death, limited to \$500,000 in life insurance and \$300,000 in accidental death and dismemberment insurance. Amounts in excess of these figures are reinsured with other life insurance companies on a yearly renewable term basis. Assurant Solutions purchases property reinsurance for flood risk, with per property limits of \$925,000 in excess of \$75,000 per individual loss. This treaty has a per occurrence cap of \$2,775,000.

For those product lines where there is exposure to catastrophes (for example, homeowners policies written by Assurant Solutions), we closely monitor and manage our aggregate risk exposure by geographic area and have entered into reinsurance treaties to manage our exposure to these types of events. For 2003, catastrophe reinsurance was purchased to manage our risk exposure to a hurricane loss in excess of the modeled 200-year return time loss. We maintain \$118 million of catastrophic excess of loss coverage for fire, flood and personal liability risks, with a per occurrence retention of the first \$20 million. In addition, 90% of Florida hurricane losses in excess of \$19 million are covered by the Florida Hurricane Catastrophe Fund (FHCF), with coverage capped at \$58 million. This coverage has been in place as of January 1, 2003 and will continue through May 31, 2004. Future FHCF coverage will be determined by the FHCF in accordance with Florida statutes and will depend upon Assurant Solutions in force Florida risks and the FHCF claims paying capacity. Also, in Assurant Employee Benefits, we have purchased catastrophic reinsurance coverage in the group term life product line of \$30 million in excess of our retention of the first \$20 million.

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A significant portion of Assurant Health's business has been reinsured under non-proportional reinsurance agreements that provide for the reinsurers to indemnify us for losses in a calendar year on combined ratios up to but not exceeding 110%. Such losses, with interest, are offset against any future profits. For calendar years where the combined ratio does not exceed 98%, Assurant Health keeps all the profits on the reinsured business net of the reinsurance fee. For years where the reinsured business is profitable but the combined ratio exceeds 98%, Assurant Health keeps 50% of the profits on the business net of the fee.

With the exception of a small block of older policy forms, all of the LTC business of John Alden, one of our subsidiaries, has been reinsured with ERC Life Reinsurance Corporation (ERC). All risks and profits generated by the reinsured business have been transferred to ERC. The reserves and premium transferred are in excess of 95% of the direct long-term care amounts generated by John Alden. The remaining small block of long-term care policies in John Alden has been reinsured with John Hancock as part of the sale of that division. See Business Dispositions below.

Under indemnity reinsurance transactions in which we are the ceding insurer, we remain liable for policy claims if the assuming company fails to meet its obligations. To limit this risk, we have control procedures in place to evaluate the financial condition of reinsurers and to monitor the concentration of credit risk to minimize this exposure. The selection of reinsurance companies is based on criteria related to solvency and reliability and, to a lesser degree, diversification as well as on developing strong relationships with our reinsurers for the sharing of risks. At December 31, 2002, 68% of our primary reinsurers (excluding The Hartford and John Hancock) were rated A or better by A.M. Best, while 10% of our reinsurers did not have A.M. Best ratings at such date.

In addition, we also purchase reinsurance when capital requirements and the economic terms of the reinsurance make it appropriate to do so.

### ***Business Dispositions***

We have exited businesses through reinsurance ceded to third parties, such as our 2001 sale of the insurance operations of FFG to The Hartford. The assets backing the liabilities on these businesses are held in a trust. All separate account business and John Alden general account business relating to FFG were transferred through modified coinsurance, a form of proportional reinsurance in which the underlying assets and liabilities are still reflected on the ceding company's balance sheet. Under this arrangement, The Hartford receives all premiums, pays all claims and funds all reserve increases net of investment income on reserves held. All other FFG business was reinsured by 100% coinsurance, which transfers all affected assets and liabilities as well as all premiums and claims to the assuming company. We would be responsible for administering this business in the event of a default by The Hartford. In addition, under the reinsurance agreement, The Hartford is obligated to contribute funds to increase the value of the separate accounts relating to the business sold if such value declines. If The Hartford fails to fulfill these obligations, we will be obligated to make these payments.

In 1997, John Alden sold substantially all of its annuity operations to SunAmerica Life Insurance Company (SunAmerica), now a subsidiary of American International Group, Inc. In connection with the sale, John Alden reinsured its existing block of annuity policies to SunAmerica on a coinsurance basis. This coinsurance was initially on an indemnity basis and the parties agreed to transition the business to an assumption basis as soon as practical. An assumption basis is a form of reinsurance under which policy administration and the contractual relationship with the insured, as well as liabilities, pass to the reinsurer. In certain states, the transition to an assumption basis is subject to policyholder approval. To the extent that such transition does not take place with respect to any particular policy, the policy will remain reinsured on an indemnity basis. As of December 31, 2003, more than 95% of the ceded annuity reserves had either transitioned to an assumption basis or had lapsed.

In 2000, we sold all of our LTC operations to John Hancock. In connection with the sale, we reinsured our existing block of long-term care policies to John Hancock on a coinsurance basis. Under the coinsurance agreement, we transferred 100% of the policy reserves and related assets on this block of business to John Hancock, and John Hancock agreed to be responsible for 100% of the policy benefits. The assets backing the

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liabilities on this business are held in a trust and John Hancock is obligated to fund the trust if the value of the assets is deemed insufficient to fund the liabilities. If John Hancock fails to fulfill these obligations, we will be obligated to make these payments.

**Assurant Solutions Client Risk and Profit Sharing**

Historically, our insurance subsidiaries in Assurant Solutions have ceded a portion of the premiums and risk related to business generated by certain clients to the client's captive insurance companies or to reinsurance companies in which the clients have an ownership interest. In some cases, our insurance subsidiaries have assumed a portion of these ceded premiums and risk from the captive insurance companies and reinsurance companies. Through these arrangements, our insurance subsidiaries share some of the premiums and risk related to client-generated business with these clients. When the reinsurance companies are not authorized to do business in our insurance subsidiary's domiciliary state, our insurance subsidiary generally obtains collateral, such as a trust or a letter of credit, from the reinsurance company or its affiliate in an amount equal to the outstanding reserves to obtain full financial credit in the domiciliary state for the third-party reinsurance. See Quantitative and Qualitative Disclosures about Market Risk Credit Risk.

In addition, we have received and responded to a John Doe summons from the Internal Revenue Service requesting information as to the identities of U.S. taxpayers that have engaged in producer-owned reinsurance company transactions in the Turks and Caicos with us. The Internal Revenue Service previously issued a notice stating that certain tax benefits claimed in connection with producer-owned reinsurance company transactions involving credit insurance transactions with producers who own reinsurance companies located in the Turks and Caicos will be denied and is investigating whether tax benefits claimed by the taxpayers they wish to identify are available. This summons states that there is no issue in the investigation relating to our tax liability. However, it is possible that the investigation by the Internal Revenue Service could affect our current reinsurance arrangements.

**Gross Annualized Premium in Force, Ceded Portion and Net Amount Retained**

The following table details our gross annualized premium in force, the portion that was ceded to reinsurers and the net amount that was retained as of December 31, 2003.

	As of December 31, 2003			
	Gross(1)	Ceded	Net	Percentage Retained
	(in millions)			
Life insurance	\$ 1,409	\$ 637	\$ 772	55%
Accident and health	4,743	949	3,794	80%
Property and casualty	2,520	929	1,591	63%
	<hr/>	<hr/>	<hr/>	
Total consolidated	\$8,672	\$2,515	\$6,157	
	<hr/>	<hr/>	<hr/>	

(1) Gross includes direct plus assumed premiums.

**Claims Provisions/ Reserves**

In accordance with industry and accounting practices and applicable insurance laws and regulatory requirements, we establish reserves for payment of claims and claims expenses for claims that arise from our insurance policies. We maintain reserves for future policy benefits and unpaid claims expenses. Policy reserves represent the accumulation of the premiums received that are set aside to provide for future benefits and expenses on claims not yet incurred. Claim reserves are established for future payments and associated expenses not yet due on claims that have already been incurred, whether reported to us or not. Reserves, whether calculated under GAAP or SAP, do not represent an exact calculation of future policy benefits and expenses but are instead estimates made by us using actuarial and statistical procedures. There can be no assurance that any such reserves would be sufficient to fund our future liabilities in all circumstances. Future

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loss development could require reserves to be increased, which would adversely affect earnings in current and/or future periods. Adjustments to reserve amounts may be required in the event of changes from the assumptions regarding future morbidity, the incidence of disability claims and the rate of recovery, including the effects thereon of inflation and other societal and economic factors, persistency, mortality, property claim frequency and severity and the interest rates used in calculating the reserve amounts. The reserves reflected in our consolidated financial statements are calculated in accordance with GAAP.

See Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Reserves.

Reserves are regularly reviewed and updated, using the most current information. Any adjustments are reflected in the current results of operations. However, because the establishment of reserves is an inherently uncertain process, there can be no assurance that ultimate losses will not exceed existing reserves.

Reserves are reviewed at least quarterly by our business segment management.

## **Investments**

The investment portfolio is a critical part of our business activities and important to our overall profitability. The fundamental investment philosophy is to manage assets, within our stated risk parameters, to generate consistent and high levels of investment income, before gains and losses, while providing a total return that is competitive over the long-term. Our investment team is charged with:

maintaining safety of principal and sufficient liquidity;

managing credit, interest rate, prepayment and market risks;

maintaining adequate diversification among asset classes, industry concentrations and individual issuers; and

adhering to all applicable regulatory requirements.

We have individual business segments with different needs and characteristics. Hence, our investment approach for each business segment is tailored to that business segment's needs in terms of asset allocation, liquidity needs and duration of assets and liabilities.

### ***Organization***

The general account is managed by our asset management department, Assurant Asset Management, or AAM. In this capacity, AAM acts as both our investment advisor and our asset manager. As investment advisor, the AAM organization oversees the design and implementation of overall investment policy. As asset manager, AAM is responsible for (i) directly investing those general account assets for which the department has in-house expertise and (ii) selecting and monitoring outside managers for those assets for which AAM has limited expertise. AAM fulfills these roles through its involvement in the establishment of risk management techniques, business segment investment policy and asset benchmark construction and through leadership and participation in our two investment oversight entities: the Company's risk management committee and the individual business segment investment committees.

Our risk management committee consists of the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Corporate Actuary and Head of Strategic Analysis. It meets quarterly and is responsible for setting overall corporate risk tolerance for the general account. As such, it approves all investment risk limits including those affecting overall portfolio quality, liquidity, duration and asset class concentration. Additionally, it approves the use of new asset classes when appropriate and business segment asset allocation and investment policy.

The business segment investment committees meet quarterly and are co-chaired by the business segment Chief Financial Officer and either the Head of Fixed Income Investments or the Head of Mortgage and Real Estate Investments. These committees are responsible for setting appropriate asset allocation and investment

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policy for our specific business segments. Additionally, they monitor investment strategy, performance, pricing and liability cash flows and research and recommend the use of new asset classes.

These committees, together with AAM, manage the overall risk parameters of our investment portfolios and seek to employ investment policies and strategies that are appropriate for and supportive of the needs of the individual businesses.

The portfolio and investment performance results are reviewed quarterly with our board of directors.

### *Investment Process*

Our investment process is initiated by the strategic analysis group within AAM. This group designs an appropriate asset allocation benchmark for each portfolio that is tailored to the associated liabilities and is designed to generate the highest level of investment income available given each business segment's overall risk tolerance. Although income is the primary objective, total return is a significant secondary objective. We operate our business through multiple legal entities. At least one portfolio is maintained for each legal entity. In addition, separate portfolios are maintained for legal entities that conduct business for more than one business segment. The maturities of the assets are selected so as to satisfy a duration corridor for each portfolio that is appropriate to its underlying liabilities. Duration is the sensitivity of the portfolio to movements of interest rates. The duration corridor refers to the minimum and maximum duration allowed. The actual duration is dynamic and will change with time and interest rate movement, as will the liability duration. The duration corridor is chosen by analyzing various risk/reward measures from appropriate asset/liability studies. The duration of our portfolio as of December 31, 2003 and 2002 was 5.92 and 5.41 years, respectively. This represents the amalgamated duration of our four operating business segments that is directly tied to their liabilities, many of which are short-tail. As of December 31, 2003, the average duration of such liabilities was 5.8 years. It is our intent to manage the portfolios such that their durations closely match the liabilities that they support.

In addition, the asset allocation benchmark will reflect multiple constraints, such as all risk tolerances established by our risk management committee, appropriate credit structure, prepayment risk tolerance, liquidity requirements, capital efficiency, tax considerations and regulatory and rating agency requirements. The individual benchmarks are then aggregated together to give a total asset profile. Asset management is conducted at the portfolio level; however, risk constraints are also in place for the aggregate portfolio. Each benchmark is reviewed at least annually for appropriateness.

Our investment portfolios are invested in the following key asset classes:

fixed income securities, including mortgage-backed and other asset-backed securities;

preferred stocks;

commercial mortgage loans; and

commercial real estate.

We began investing in private placement loans in the fourth quarter of 2003 and ultimately over the next several years intend to have private placement loans represent 5% of our total invested assets. As of December 31, 2003, we had approximately \$19 million invested in private placements. We do not currently invest new money in equity securities; however, we may do so in the future. As of December 31, 2003, less than 1% of the fair value of our total invested assets was invested in common stock.

Changes in individual security values are monitored on a semi-monthly basis in order to identify potential problem credits. In addition, each month the portfolio holdings are screened for securities whose market price is equal to 85% or less of their original purchase price. Management then makes their assessment as to which of these securities are other than temporarily impaired. Assessment factors include, but are not limited to, the financial condition of the issuer, any collateral held and the length of time the market value of the security has been below cost. Each month the watchlist is discussed at a meeting attended by members of our investment, accounting and finance departments. Each quarter any security whose price decrease is deemed to have been

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other than temporarily impaired is written down to its then current market level, with the amount of the writedown reflected in our statement of operations for that quarter. Previously impaired issues are also monitored monthly, with additional writedowns taken quarterly if necessary

*Fixed Income Portfolio Process*

AAM controls the credit risk in the fixed income portfolio through a combination of issuer level credit research and portfolio level credit risk management. At the issuer level, we maintain a credit database that contains both qualitative and quantitative assessments of over 200 issuers and 35 industries. At the portfolio level, we control credit risk primarily through quality and industry diversification, individual issuer limits based upon credit rating and a sell discipline designed to reduce quickly exposure to deteriorating credits. In addition, we monitor changes in individual security values on a semi-monthly basis in order to identify potential problem credits. This process is also incorporated into our impairment watchlist process. The risks in the fixed income portfolio are controlled and monitored.

The risks in the fixed income portfolio are carefully controlled and monitored. First, AAM customizes the asset allocation benchmark to reflect the risk tolerance for each of our operating business segments. Second, our risk management committee imposes issuer portfolio limits on individual issuers based upon credit quality, which limits are currently 1.5% for issuers rated AA- and above, 1% for issuers rated A- to A+, 0.75% for issuers rated BBB- to BBB+ and 0.38% for issuers rated BB- to BB+. We use the lower of Moody's or Standard & Poor's ratings to determine an issuer's rating. Third, our fixed income investment team sub-divides the portfolio's BBB-rated holdings by rating notch (i.e., BBB+, BBB, BBB-) and typically imposes lower limits for the lower rated BBB issuers. Our policy is not to purchase non-rated fixed income securities. However, as of December 31, 2003, less than 2% of our fixed maturity securities portfolio was invested in fixed maturity securities that were not rated by Moody's or Standard & Poor's. Finally, we give our high yield managers the option to accept investment grade holdings if they are downgraded to below investment grade. If our high yield managers reject such holdings, we will liquidate any such holdings; if the high yield managers accept only a portion of such holdings, we will liquidate the remaining portion of such holdings. The effect of these and other risk controls, some of which are described below, is a highly diversified credit portfolio and a sell discipline designed to reduce exposure to issuers whose credit profile is deteriorating.

In order to invest in a wide variety of asset classes in our portfolio and to appropriately manage the accompanying risks, we had outsourced the management of almost 14% of our portfolio's market value as of December 31, 2003. We have engaged Alliance Capital Management Corp. and Wellington Management Co. for high yield investments, Spectrum Asset Management, Inc. and Flaherty & Crumrine Inc. for preferred stock investments, Prudential Private Placement Investors, LP for our private placements and Lancaster Investment Counsel and Phillips Hager & North Investment Management Ltd. for our Canadian investment portfolios. We retain custody control over assets under management by outside managers and have oversight procedures in place for all managers. These procedures include formal investment guidelines, daily transaction updates and periodic portfolio reviews. The outside managers are required to provide research updates for any issuer on the impairment watchlist for which they are responsible. Our agreements with these investment managers are generally terminable by us upon 30 days' written notice. Additionally, we have recently entered into an agreement to outsource our new private placement loan investment program to Prudential Private Placement Investors, LP.

*Commercial Mortgage Loans Investment Process*

We originate fixed rate, first commercial mortgage loans through a nationwide group of exclusive, regional mortgage correspondents. We have a mortgage loan committee within AAM that is responsible for the approval of our mortgage loan related investments. Generally the mortgage correspondents service the loans they originate and we regularly meet with them to help foster a strong working relationship. Every property securing a loan application is inspected and underwritten by our mortgage loan staff prior to approval by our mortgage loan committee, which is comprised of the heads of our commercial mortgage and real estate departments and the vice president of our legal department. Most of the loans are non-recourse and virtually all loans include a yield maintenance provision, which compensates us in the event of loan prepayment. We



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are a portfolio lender and generally hold our commercial mortgage loans to maturity. We typically do not securitize or otherwise sell our commercial mortgage loans.

Our investment process requires an in-depth review of the loan terms, security and the borrower prior to commitment. We seek geographic and property-type diversification and concentrate on the four following major property types for collateral: office, retail, warehouse and multi-family properties. Our policy is that mortgage loans may not exceed 75% of the market value of the property securing the loan; however, the loans we originate typically are below 70% of the market value. Loan terms generally range from five to 30 years, with amortization of five to 35 years.

Our commercial mortgage loan portfolio is reviewed monthly for potential problems. All servicers provide monthly delinquencies reports. Problem loans, including delinquencies, foreclosures and loans on the watch list, are reviewed monthly. Inspection reports relating to financial, market and physical conditions, among other items, are obtained and reviewed on all loans annually. A potential loss reserve based on historical data adjusted for current expectations is maintained and is typically between 1.25% and 2.25% of commercial mortgage loans on real estate. As of December 31, 2003, the reserve was approximately 2.0% of the unpaid principal of our commercial mortgage loans, or \$19 million.

### *Investment Real Estate Process*

We invest in income-producing commercial properties to generate attractive risk-adjusted returns as well as to generate operating investment income with the potential for capital gains upon sale of the property. We invest with regional operating partners who generally invest capital in the property with us and provide management and leasing services. Our portfolio is diversified by location, property type, operating partner and lease term. Property types include office buildings, warehouse/industrial buildings and multi-family housing.

Our investment process relies upon thorough market research and extensive due diligence. We maintain regional market information to target potentially attractive real estate markets. Physical, financial and market due diligence is conducted on all potential acquisitions prior to investing. Financial scenarios and resulting income and capital gains for various holding periods are modeled. Modest levels of non-recourse debt are employed to enable us to diversify the portfolio while limiting our equity exposure to this asset class. These investments are made through limited liability companies or limited partnerships.

Our portfolio is monitored through numerous reports and regular property inspections. Monthly operating statements and quarterly GAAP statements are produced on every property and the results reported quarterly to the business segment investment committee. Internal annual appraisals are performed and every property is appraised by an independent appraiser at least once every three years on a rolling basis. Internal appraisals are updated quarterly to reflect major changes in market conditions or property or leasing conditions. Values are reported on our financial statements on the equity method. Market values are reported at the lesser of our internal valuation or the independent appraised value.

All portfolios are reviewed monthly to insure that they are in compliance with guidelines established by our risk management committee or the established asset allocation for all asset classes. Exceptions are reviewed by our Chief Investment Officer and are corrected by the appropriate asset manager. State and regulatory compliance is reviewed by portfolio and by legal entity at least annually to insure compliance with regulations.

### *Portfolio Composition*

Our total invested assets were \$10,924 million and \$10,084 million, or 46% and 45%, of our total assets, as of December 31, 2003 and 2002, respectively. Our net investment income for the years ended December 31, 2003 and 2002 was 9% and 10%, respectively, of our total revenue, excluding realized investment losses and gains. We had a net realized gain on investments of \$2 million for the year ended December 31, 2003 and a net realized loss on investments of \$118 million for the year ended December 31, 2002. Our investment portfolio consists primarily of:

fixed income securities, including mortgage-backed and other asset-backed securities;

preferred stocks;

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commercial mortgage loans; and

commercial real estate.

As of December 31, 2003 and 2002, fixed maturity securities accounted for 80% of our total invested assets. The corporate bond portfolio is well diversified across industry classes.

The following table sets forth the carrying value of the securities held in our investment portfolio at the dates indicated:

	At December 31,	
	2003	2002
	(in millions)	
Fixed maturities	\$ 8,729	\$ 8,036
Equity securities	456	272
Commercial mortgage loans on real estate at amortized cost	933	842
Policy loans	68	69
Short-term investments	276	684
Other investments(1)	462	181
<b>Total</b>	<b>\$ 10,924</b>	<b>\$ 10,084</b>

(1) Includes primarily commercial real estate and limited partnerships.

*Investment Results*

The overall income yield on our investments after investment expenses, excluding net realized investment gains (losses), was 5.61% for the year ended December 31, 2003 and 6.20% for the year ended December 31, 2002. The overall income yield on our investments after investment expenses, including realized gains (losses), was 5.63% for the year ended December 31, 2003 and 5.04% for the year ended December 31, 2002.

The following table sets forth the income yield and net investment income, excluding realized investment gains/(losses), for each major investment category for the periods indicated.

	For the Year Ended December 31, 2003		For the Year Ended December 31, 2002	
	Yield(1)	Amount	Yield(1)	Amount
	(in millions)			
Fixed maturities	5.96%	\$473	6.76%	\$510
Equity securities	7.71%	27	8.93%	23
Commercial mortgage loans on real estate	8.00%	71	9.11%	78
Policy loans	5.70%	4	5.10%	3
Short-term investments	1.41%	7	1.30%	9
Cash and cash equivalents	0.40%	3	1.42%	9
Other investments(2)	14.48%	46	11.48%	19
Investment income before investment expenses	5.83%	631	6.39%	651
Investment expenses		(24)		(19)
<b>Net investment income</b>	<b>5.61%</b>	<b>\$607</b>	<b>6.20%</b>	<b>\$632</b>

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Total Return Fixed Maturity Portfolio(3)	7.33%	8.42%
Total Return Lehman U.S. Aggregate Index(4)	4.10%	10.26%

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- (1) The yield is calculated by dividing income by average assets. The yield calculation for the year ended December 31, 2003 includes the average of asset positions as of December 31, 2002 and December 31, 2003. The yield calculation for the year ended December 31, 2002 includes the average of asset positions as of December 31, 2001 and December 31, 2002.

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- (2) Includes primarily commercial real estate and limited partnerships.
- (3) Total return is calculated using beginning and ending market portfolio value adjusted for external cash flows.
- (4) The actual portfolio is customized for the liabilities that it supports. It will therefore differ from the Lehman Index, both in asset allocation and duration. As of December 31, 2003, the actual portfolio had a duration of 5.96 years with 4% of the total portfolio in U.S. Government securities, 59% in U.S. credit and 16% in securitized assets. Commercial mortgages and real estate comprised the remainder of the portfolio. In contrast, the Lehman Index had a duration of 4.54 with 34% in U.S. Government securities, 26% in U.S. credit and 40% in securitized assets.

*Fixed Maturity Securities*

The amortized cost and fair value of fixed maturity securities at December 31, 2003 and 2002, by type of issuer, were as follows:

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in millions)				
<b>At December 31, 2003</b>				
U.S. government and government agencies and authorities	\$ 1,647	\$ 39	\$ (4)	\$ 1,682
States, municipalities and political subdivisions	187	16		203
Foreign governments	307	12	(1)	318
Public utilities	910	74		984
All other corporate bonds	5,179	371	(8)	5,542
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$8,230	\$512	\$(13)	\$8,729
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At December 31, 2002</b>				
U.S. government and government agencies and authorities	\$ 1,576	\$ 71	\$	\$ 1,647
States, municipalities and political subdivisions	196	15		211
Foreign governments	202	19	(17)	204
Public utilities	834	55	(10)	879
All other corporate bonds	4,823	299	(27)	5,095
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$7,631	\$459	\$(54)	\$8,036
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

For similar information regarding our equity securities, see Note 5 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

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The following table presents our fixed maturity securities portfolio by NAIC designation and the equivalent ratings of the nationally recognized securities rating organizations as of December 31, 2003 and 2002, as well as the percentage based on fair value, that each designation comprises:

NAIC Rating	Rating Agency Equivalent	At December 31, 2003			At December 31, 2002		
		Amortized Cost	Fair Value	Percentage of Total Fair Value	Amortized Cost	Fair Value	Percentage of Total Fair Value
1	Aaa/Aa/A	\$5,770	\$6,074	70%	\$5,673	\$6,013	75%
2	Baa	1,964	2,110	24%	1,454	1,526	19%
3	Ba	331	361	4%	333	338	4%
4	B	122	135	2%	108	105	1%
5	Caa and lower	34	40	0%	59	50	1%
6	In or near default	9	9		4	4	
	Total	\$8,230	\$8,729	100%	\$7,631	\$8,036	100%

The amortized cost and fair value of fixed maturity securities at December 31, 2003 and 2002, by contractual maturity are shown below:

	At December 31, 2003		At December 31, 2002	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Due in one year or less	\$ 240	\$ 245	\$ 271	\$ 274
Due after one year through five years	1,728	1,824	1,990	2,085
Due after five years through ten years	2,136	2,275	1,647	1,732
Due after ten years	2,199	2,425	2,313	2,483
Total	6,303	6,769	6,221	6,574
Mortgage and asset backed securities	1,927	1,960	1,410	1,462
Total	\$8,230	\$8,729	\$7,631	\$8,036

Virtually all of our fixed maturity securities portfolio is publicly traded. We have recently initiated a private placement program and plan to invest approximately \$500 million in privately placed securities over the next two years. Currently, we have less than 1% of our fixed maturity securities invested in private placement. As of December 31, 2003, approximately 95% of the fair market value of our fixed maturity securities were dollar denominated. As of December 31, 2003, we had approximately \$564 (Canadian) million invested in Canadian fixed maturity securities; however, these assets directly support Canadian liabilities.

*Commercial Mortgage Loans*

We have made commercial mortgage loans, collateralized by the underlying real estate, on properties located throughout the United States. At December 31, 2003 approximately 34% of the outstanding principal balance of commercial mortgage loans was concentrated in the states of California, New York, and Pennsylvania. Although we have a diversified loan portfolio, an economic downturn could have an adverse impact on the ability of our debtors to repay their loans. At December 31, 2003, the outstanding balances of commercial mortgage loans ranged in size from \$1 to \$10 million with an average outstanding balance of \$2 million. Loan commitments outstanding at December 31, 2003 and 2002 totaled \$76 million and \$29 million, respectively.

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As of December 31, 2003, approximately \$518 million of principal, or 54%, of our commercial mortgage loans before valuation allowance had balloon maturities. A balloon maturity is a loan with larger dollar amounts of payments becoming due in the later years of the loan. The default rate on commercial mortgage loans with balloon payment maturities has historically been higher than the default rate on commercial

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mortgage loans with standard repayment schedules. Since most of the principal is being repaid at maturity, the amount of loss on a default is generally greater than on other commercial mortgage loans. An increase in defaults on such loans as a result of the foregoing factors could materially adversely affect our financial condition and reduce our profitability.

### *Investment Real Estate*

We also hold commercial equity real estate as part of our investment portfolio. Investments in real estate joint ventures totaled \$57 million and \$63 million as of December 31, 2003 and 2002, respectively. We own real estate through real estate joint ventures and partnerships. The main property types within our portfolio are office, industrial/warehouse and multi-family housing.

## **Competition**

We face competition in each of our businesses; however, 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 has numerous competitors in its product lines, but we believe no other company participates in all of the same lines or offers comprehensive capabilities. Competitors include insurance companies and financial institutions. In Assurant Health, we believe the market is characterized by many competitors, and our main competitors include health insurance companies and the Blue Cross/ Blue Shield plans in the states in which we write business. In Assurant Employee Benefits, commercial competitors include other life insurance companies as well as not-for-profit Delta Dental plans. In Assurant PreNeed, our main competitors are two pre-need life insurance companies with nationwide representation, Forethought Financial Services and Homesteaders Life Company, and several small regional insurers. While we are among the largest competitors in terms of market share in many of our business lines, in some cases there are one or more major market players in a particular line of business.

Some of these companies may offer more competitive pricing, greater diversity of distribution, better brand recognition or higher financial strength ratings than we have. Some may also have greater financial resources with which to compete. In addition, many of our insurance products, particularly our group benefits and health insurance policies, are underwritten annually and, accordingly, there is a risk that group purchasers may be able to obtain more favorable terms from competitors rather than renewing coverage with us. The effect of competition may, as a result, adversely affect the persistency of these and other products, as well as our ability to sell products in the future.

## **Ratings**

Rating organizations continually review the financial positions of insurers, including our insurance subsidiaries. Insurance companies are assigned financial strength ratings by independent rating agencies based upon factors relevant to policyholders. Ratings provide both industry participants and insurance consumers meaningful information on specific insurance companies and are an important factor in establishing the competitive position of insurance companies. All of our active domestic operating insurance subsidiaries are rated by A.M. Best. A.M. Best maintains a letter scale rating system ranging from A++ (Superior) to S





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(suspended). Six of our domestic operating insurance subsidiaries are also rated by Moody's. In addition, seven of our domestic operating insurance subsidiaries are rated by S&P and Fitch.

Most of our domestic operating insurance subsidiaries have A.M. Best financial strength ratings of A (Excellent), which is the second highest of ten ratings categories and the highest within the category based on modifiers (i.e., A and A- are Excellent). Our other domestic operating insurance subsidiaries have A.M. Best financial strength ratings of A- (Excellent), which is the second highest of ten ratings categories and the lowest within the category based on modifiers.

The Moody's financial strength rating for one of our domestic operating insurance subsidiaries was A2 (Good), which is the third highest of nine ratings categories and mid-range within the category based on modifiers (i.e., A1, A2 and A3 are Good), and for five of our domestic operating insurance subsidiaries is A3 (Good), which is the third highest of nine ratings categories and the lowest within the category based on modifiers.

The S&P financial strength rating for five of our domestic operating insurance subsidiaries, is A (Strong), which is the third highest of nine ratings categories and mid-range within the category based on modifiers (i.e., A+, A and A- are Strong), and for two of our domestic operating insurance subsidiaries is A- (Strong), which is the third highest of nine ratings categories and the lowest within the category based on modifiers.

The Fitch financial strength rating for the seven rated domestic insurance companies is A (Strong) which is the third highest of twelve rating categories and mid-range within the category based on modifiers (i.e., A+, A and A are Strong).

The objective of A.M. Best's, Moody's, S&P's and Fitch's ratings systems is to assist policyholders and to provide an opinion of an insurer's financial strength, operating performance, strategic position and ability to meet ongoing obligations to its policyholders. These ratings reflect opinions of A.M. Best, Moody's, S&P and Fitch of our ability to pay policyholder claims, are not applicable to the exchange notes and are not a recommendation to buy, sell or hold any security, including the exchange notes. These ratings are subject to periodic review by and may be revised upward, downward or revoked at the sole discretion of A.M. Best, Moody's, S&P and Fitch.

## **Properties**

We own seven properties, including five buildings that serve as headquarters locations for our operating business segments in Miami, Florida, Atlanta, Georgia, Kansas City, Missouri, Milwaukee, Wisconsin and Rapid City, South Dakota. We lease office space for various offices and service centers located throughout the United States and internationally, including our New York corporate office, Assurant PreNeed's Atlanta operations and our data center in Woodbury, Minnesota. Our leases have terms ranging from month-to-month to twenty-five years. We believe that our owned and leased properties are adequate for our current business operations.

## **Employees**

As of December 31, 2003, we had approximately 12,200 employees. In Assurant Solutions, we have employees in Argentina and Brazil who are represented by labor unions. None of our other employees are subject to collective bargaining agreements governing employment with us or represented by labor unions. We believe that we have an excellent relationship with our employees.

## **Legal Proceedings**

We are regularly involved in litigation in the ordinary course of business, both as a defendant and as a plaintiff. We may from time to time be subject to a variety of legal and regulatory actions relating to our current and past business operations. While we cannot predict the outcome of any pending or future litigation, examination or investigation and although no assurances can be given, we do not believe that any pending matter will have a material adverse effect on our financial condition or results of operations.

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In Assurant Solutions, we are subject to a number of pending actions, primarily in the State of Mississippi, many of which allege that our credit insurance products were packaged and sold with lenders' products without buyer consent. The judicial climate in Mississippi is such that the outcome of these cases is extremely unpredictable. We have been advised by legal counsel that we have meritorious defenses to all claims being asserted against us. We believe, based on information currently available, that any losses are not expected to significantly differ from amounts previously accrued.

ABIG, part of Assurant Solutions, on behalf of certain of its subsidiaries, including ABIC and ABLAC, previously entered into a Consent Order and a comprehensive Compliance Plan with 43 participating states relating to compliance with the often disparate state insurance laws, regulations and administrative interpretations which have been difficult to apply to the marketing of ABIG's credit insurance products through financial institutions, retailers and other entities offering consumer financing as a regular part of their business. In addition to an initial settlement of \$12 million, ABIG agreed to a multi-state market conduct examination commencing November 23, 1999, for review of ABIG's implementation of the Compliance Plan. A final report was issued on December 19, 2001, and ABIG paid a final settlement of \$3 million to participating states.

In February 2002, the State of Minnesota initiated an enforcement action against ABIC and ABLAC in connection with certain alleged regulatory violations. Thereafter, ABIC and ABLAC filed suit in Minnesota state court seeking to enjoin the enforcement action because the alleged regulatory matters included within the enforcement action were resolved as a part of the above-described Consent Order and Compliance Plan to which Minnesota was a party. In February 2003, the State of Minnesota, ABIC and ABLAC reached a final settlement of all matters included within the enforcement action and the separate state court action filed by ABIC and ABLAC. Pursuant to the settlement, ABIC and ABLAC each agreed to pay \$100,000 to the State of Minnesota and agreed to compensate the state for its investigative costs, which totaled \$1.8 million. In addition, ABIC and ABLAC agreed to stop selling insurance in Minnesota for five years, though they could apply for reinstatement in 20 months. Other member companies of our Assurant Solutions Segment with product lines that overlap those offered by ABIC and ABLAC currently remain authorized to do business in the State of Minnesota. We do not believe that the effect of the settlement during the next five years will have a material impact on our financial condition or results of operations.

In addition, one of our subsidiaries, American Reliable Insurance Company (ARIC), participated in certain excess of loss reinsurance programs in the London market and, as a result, reinsured certain personal accident, ransom and kidnap risks from 1995 to 1997. ARIC and a foreign affiliate ceded a portion of these risks to other reinsurers (retrocessionaires). ARIC ceased reinsuring such business in 1997. However, certain risks continued beyond 1997 due to the nature of the reinsurance contracts written. ARIC and some of the other reinsurers involved in the programs are seeking to avoid certain treaties on various grounds, including material misrepresentation and non-disclosure by the ceding companies and intermediaries involved in the programs. Similarly, some of the retrocessionaires are seeking avoidance of certain treaties with ARIC and the other reinsurers and some reinsureds are seeking collection of disputed balances under some of the treaties. The disputes generally involve multiple layers of reinsurance, and allegations that the reinsurance programs involved interrelated claims spirals devised to disproportionately pass claims losses to higher-level reinsurance layers. Many of the companies involved in these programs, including ARIC, are currently involved in negotiations, arbitration and/or litigation between multiple layers of retrocessionaires, reinsurers, ceding companies and intermediaries, including brokers, in an effort to resolve these disputes. Many of those disputes relating to the 1995 program year, including those involving ARIC, were settled on December 3, 2003. Loss accruals previously established relating to the 1995 program year were adequate. However, our exposure under the 1995 program year was less significant than the exposure remaining under the 1996 and 1997 program years. We believe, based on information currently available, that the amounts accrued for currently outstanding disputes are adequate. The inherent uncertainty of arbitrations and lawsuits, including the uncertainty of estimating whether any settlements we may enter into in the future, would be on favorable terms, makes it difficult to predict the outcomes with certainty.

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As a result of regulatory scrutiny of our industry practices or our businesses, such as examinations of race-based premiums charged in the past by two of our acquired subsidiaries, it is possible that we may be subject to legal proceedings in the future relating to those practices and businesses. See Regulation.

See Risk Factors Risks Related to Our Industry Our business is subject to risks related to litigation and regulatory actions.

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**REGULATION**

**United States**

*State Regulation*

*General*

Our insurance subsidiaries are subject to regulation in the various states and jurisdictions in which they transact business. The extent of regulation varies, but generally derives from statutes that delegate regulatory, supervisory and administrative authority to a department of insurance in each state. The regulation, supervision and administration relate, among other things, to:

standards of solvency that must be met and maintained;

the payment of dividends;

changes of control of insurance companies;

the licensing of insurers and their agents;

the types of insurance that may be written;

guaranty funds;

privacy practices;

the ability to enter and exit certain insurance markets;

the nature of and limitations on investments, premium rates, or restrictions on the size of risks that may be insured under a single policy;

reserves and provisions for unearned premiums, losses and other obligations;

deposits of securities for the benefit of policyholders;

payment of sales compensation to third parties;

approval of policy forms; and

the regulation of market conduct, including underwriting and claims practices.

State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports, prepared under SAP, relating to the financial condition of companies and other matters. Financial examinations completed during the past three years with respect to our operating subsidiaries have not resulted in material negative adjustments to statutory surplus and pending financial and market conduct examinations with respect to these subsidiaries have not identified any material findings to date. Two of our subsidiaries have responded affirmatively to an NAIC survey regarding race-based premiums, resulting in examinations by two state insurance departments. This relates to actions of the subsidiaries or predecessor companies before acquisition by us. One examination has been concluded and one is still in progress and, to date, no penalties have been imposed as a result of these examinations. The amount of in force business as to which these subsidiaries charged race-based premiums is very small, representing less than 1% of the in force block of business of the Company at December 31, 2003. While we do not expect that these examinations will have a material adverse effect on us, there can be no assurance that further examinations or litigation will not occur with respect to race-based premiums.

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In February 2003, two of our subsidiaries, American Bankers Insurance Company (ABIC) and American Bankers Life Assurance Company (ABLAC), reached a final settlement with the State of Minnesota in connection with certain alleged regulatory violations. Pursuant to the settlement, ABIC and ABLAC have agreed to stop selling insurance in Minnesota for five years, though they could apply for reinstatement in 20 months. However, other member companies of Assurant Solutions with product lines that overlap those offered by ABIC

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and ABLAC currently remain authorized to conduct business in the State of Minnesota. See Business Legal Proceedings.

In addition, we are currently engaged in litigation with the insurance department in the State of Minnesota in which we are seeking to enforce an existing consent order giving us rate increases for our individual medical business in Minnesota.

At the present time, our insurance subsidiaries are collectively licensed to transact business in all 50 states and the District of Columbia, although several of our insurance subsidiaries or prepaid dental plan companies individually are licensed in only one or a few states. We have insurance subsidiaries or prepaid dental plan companies domiciled in the states of Alabama, Arizona, California, Colorado, Delaware, District of Columbia, Florida, Indiana, Kentucky, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Wisconsin, and in Puerto Rico.

*Regulation of Credit Insurance Products*

Most states and other jurisdictions in which our insurance subsidiaries do business have enacted laws and regulations that apply specifically to consumer credit insurance. The methods of regulation vary but generally relate to, among other things, the amount and term of coverage, the content of required disclosures to debtors, the filing and approval of policy forms and rates, the ability to provide creditor-placed insurance and limitations on the amount of premiums that may be charged and on the amount of compensation that may be paid as a percentage of premiums. In addition, some jurisdictions have enacted or are considering regulations that may limit profitability arising from credit insurance based on underwriting experience.

The regulation of credit insurance is also affected by judicial activity. For example, recent federal court decisions have enhanced the ability of national banks to engage in activities that effectively compete with our consumer credit insurance business without being subject to various aspects of state insurance regulation.

*Regulation of Service Contracts and Warranties*

The extent of regulation over the sale of service contracts and warranties varies considerably from state to state. In the states that do regulate the sales of these products, the regulations generally are less stringent than those applicable to the sale of insurance. For example, most states do not require the filing and approval of contract forms and rates for service contracts and warranties. States that do regulate such contract forms typically require specific wording regarding cancellation rights and regarding the consumer's rights in the event of a claim. Most states do not require that individual salespersons of service contracts and warranties be licensed as insurance agents. In the states that do require such a license, salespersons may qualify for a limited license to sell service contracts and warranties without meeting the education and examination requirements applicable to insurance agents. In addition, the compensation paid to salespersons of service contracts and warranties is generally not regulated.

*Regulation of Health Insurance Products*

State regulation of health insurance products varies from state to state, although all states regulate premium rates, policy forms and underwriting and claims practices to one degree or another. Most states have special rules for health insurance sold to individuals and small groups. For example, a number of states have passed or are considering legislation that would limit the differentials in rates that insurers could charge for health care coverages between new business and renewal business for small groups with similar demographics. Every state has also adopted legislation that would make health insurance available to all small employer groups by requiring coverage of all employees and their dependents, by limiting the applicability of pre-existing conditions exclusions, by requiring insurers to offer a basic plan exempt from certain benefits as well as a standard plan, or by establishing a mechanism to spread the risk of high risk employees to all small group insurers. The U.S. Congress and various state legislators have from time to time proposed changes to the health care system that could affect the relationship between health insurers and their customers, including external review. In addition, various states are considering the adoption of play or pay laws requiring that

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employers either offer health insurance or pay a tax to cover the costs of public health care insurance. We cannot predict with certainty the effect that any proposals, if adopted, or legislative developments could have on our insurance businesses and operations.

A number of states have enacted new health insurance legislation over the past several years. These laws, among other things, mandate benefits with respect to certain diseases or medical procedures, require health insurers to offer an independent external review of certain coverage decisions and establish health insurer liability. There has also been an increase in legislation regarding, among other things, prompt payment of claims, privacy of personal health information, health insurer liability and relationships between health insurers and providers. We expect that this trend of increased legislation will continue. These laws may have the effect of increasing our costs and expenses.

In most states in which we operate, we provide our individual health insurance products through an association. The use of associations offers greater flexibility on pricing, underwriting and product design compared to products sold directly to individuals on a true individual policy basis due to the greater regulatory scrutiny of true individual policies. The marketing of health insurance through association groups has recently come under increased scrutiny. An interruption in, or changes to, our relationships with various third-party distributors or our inability to respond to regulatory changes could impair our ability to compete and market our insurance products and services and materially adversely affect our results of operations and financial condition.

*Regulation of Employee Benefits Products*

State regulation of non-medical group products, including group term life insurance, group disability and group dental products, also varies from state to state. As with individual insurance products, the regulation of these products generally also includes oversight over premium rates and policy forms, but often to a lesser degree. The regulatory environment for group term life insurance is relatively established, with few significant changes from year to year.

Group PPO dental insurance policies are generally regulated in the same manner as non-PPO dental policies, except to the extent that a small number of states have chosen to restrict the difference in benefits allowable between in-network and out-of-network services. Also, some states directly regulate the operation of the PPO network by requiring separate licensing or registration for the organization that contracts with the providers of dental care. In those states, PPOs also must comply with varying levels of regulatory oversight concerning the content of PPO contracts and provider practice standards. Most of the states in which prepaid dental plans are written recognize prepaid dental plans as an activity separate from traditional insurance, because providers are compensated through capitation arrangements. In most of these states, prepaid dental plans are written by a single-purpose, single-state affiliate that holds a license distinct from the life and health insurance license required for group dental insurance policies. Entities providing prepaid plans are variously licensed as health maintenance organizations (HMOs), prepaid dental plans, limited service health plans, life and health insurers or risk-bearing PPOs, where such licenses are required. Each state has different rules regarding organization, capitalization and reporting for the separate entities, with additional variations relating to provider contracting, oversight, plan management and plan operations.

Providers of group disability and dental insurance, like providers of group health insurance, are subject to state privacy laws, claims processing rules and prompt pay requirements in various states.

As an extension of past legislative activities in the medical insurance arena, legislative and regulatory consideration, at both the federal and state levels, is being directed toward an effort to mandate what its proponents call mental health parity in the policy provisions of group disability insurance plans. This would require providers of group disability insurance to extend the same benefits for disabilities related to mental illness as are provided for other disabilities.

Group benefit plans and the claims thereunder are also largely subject to federal regulation under ERISA, a complex set of laws and regulations subject to interpretation and enforcement by the Internal Revenue Service and the Department of Labor. ERISA regulates certain aspects of the relationships between

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us and employers who maintain employee benefit plans subject to ERISA. Some of our administrative services and other activities may also be subject to regulation under ERISA.

*Regulation of Pre-Funded Funeral Insurance Products*

State regulation of the pre-funded funeral insurance products business varies considerably from state to state. Our pre-funded funeral insurance products are typically structured as small whole life insurance policies, usually under \$10,000 face amount, and are regulated as such by the states. State laws also restrict who may sell a pre-funded funeral. For example, in certain states a pre-funded funeral may only be offered through licensed funeral directors. In New York, the payment of commissions to a funeral director for the sale of insurance is prohibited.

State privacy laws, particularly those with opt-in clauses, can also affect the pre-funded funeral insurance business. These laws make it harder to share information for marketing purposes, such as generating new sales leads. Similarly, state do not call lists, as well as the recently created national do not call list, also make it more difficult for our pre-funded funeral insurance agents to solicit new customers, particularly on a cold call basis.

In certain states, insurance companies offering pre-funded funeral insurance products must offer a free-look period of typically 30 days, during which the purchaser of the product may cancel and receive a full refund. Furthermore, in certain states, death benefits under pre-funded funeral insurance products must grow with the Consumer Price Index.

*Insurance Holding Company Statutes*

Although as a holding company, Assurant, Inc. is not regulated as an insurance company, we own capital stock in insurance subsidiaries and therefore are subject to state insurance holding company statutes, as well as certain other laws, of each of the states of domicile of our insurance subsidiaries. All holding company statutes, as well as other laws, require disclosure and, in some instances, prior approval of material transactions between an insurance company and an affiliate. The holding company statutes as well as other laws also require, among other things, prior approval of an acquisition of control of a domestic insurer, some transactions between affiliates and the payment of extraordinary dividends or distributions.

*Insurance Regulation Concerning Dividends*

The payment of dividends to us by any of our insurance subsidiaries in excess of a certain amount (i.e., extraordinary dividends) must be approved by the subsidiary's domiciliary state department of insurance. Ordinary dividends, for which no regulatory approval is generally required, are limited to amounts determined by formula, which varies by state. The formula for the majority of the states in which our subsidiaries are domiciled is the lesser of (i) 10% of the statutory surplus as of the end of the prior year or (ii) the prior year's statutory net income. In the remaining states in which our subsidiaries are domiciled, the formula is the greater amount of clauses (i) and (ii). Some states, however, have an additional stipulation that dividends may only be paid out of earned surplus. If insurance regulators determine that payment of an ordinary dividend or any other payments by our insurance subsidiaries to us (such as payments under a tax sharing agreement or payments for employee or other services) would be adverse to policyholders or creditors, the regulators may block such payments that would otherwise be permitted without prior approval. As part of the regulatory approval process for the acquisition of ABIG in 1999, we entered into an agreement with the Florida Insurance Department pursuant to which ABIC and ABLAC have agreed to limit the amount of ordinary dividends they would pay to us to an amount no greater than 50% of the amount otherwise permitted under Florida law. This agreement expires in August 2004. In addition, we entered into an agreement with the New York Insurance Department as part of the regulatory approval process for the merger of Bankers American Life Assurance Company, one of our New York-domiciled insurance subsidiaries, into First Fortis Life Insurance Company in 2001 pursuant to which First Fortis Life Insurance Company agreed not to pay any dividends to us until fiscal year 2004. No assurance can be given that there will not be further regulatory actions restricting the ability of our insurance subsidiaries to pay dividends. Based on the dividend restrictions



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under applicable laws and regulations, the maximum amount of dividends that our subsidiaries could pay to us in 2004 without regulatory approval was approximately \$302 million, of which approximately \$5.5 million had been paid as of April 1, 2004. We expect that as a result of, among other things, statutory accounting for our sold businesses, the maximum amount of dividends our subsidiaries will be able to pay to us will be significantly lower in 2004.

### *Statutory Accounting Practices (SAP)*

SAP is a basis of accounting developed to assist insurance regulators in monitoring and regulating the solvency of insurance companies. It is primarily concerned with measuring an insurer's statutory surplus. Accordingly, statutory accounting focuses on valuing assets and liabilities of insurers at financial reporting dates in accordance with appropriate insurance law and regulatory provisions applicable in each insurer's domiciliary state.

GAAP is concerned with a company's solvency, but it is also concerned with other financial measurements, such as income and cash flows. Accordingly, GAAP gives more consideration to appropriate matching of revenue and expenses and accounting for management's stewardship of assets than does SAP. As a direct result, different assets and liabilities and different amounts of assets and liabilities will be reflected in financial statements prepared in accordance with GAAP as opposed to SAP.

Statutory accounting practices established by the NAIC and adopted, for the most part, by the various state insurance regulators determine, among other things, the amount of statutory surplus and statutory net income of our insurance subsidiaries and thus determine, in part, the amount of funds they have available to pay as dividends to us.

### *Assessments for Guaranty Funds*

Virtually all states require insurers licensed to do business in their state to bear a portion of the loss suffered by some insureds as a result of the insolvency of other insurers. Depending upon state law, insurers can be assessed an amount that is generally equal to between 1% and 3% of premiums written for the relevant lines of insurance in that state each year to pay the claims of an insolvent insurer. A portion of these payments is recoverable through premium rates, premium tax credits or policy surcharges. Significant increases in assessments could limit the ability of our insurance subsidiaries to recover such assessments through tax credits or other means. In addition, there have been some legislative efforts to limit or repeal the tax offset provisions, which efforts, to date, have been generally unsuccessful. These assessments are expected to increase in the future as a result of recent insolvencies.

### *Insurance Regulations Concerning Change of Control*

Many state insurance regulatory laws intended primarily for the protection of policyholders contain provisions that require advance approval by the state insurance commissioner of any change in control of an insurance company that is domiciled, or, in some cases, having such substantial business that it is deemed to be commercially domiciled, in that state. Prior to granting such approval, the state insurance commissioner will consider such factors as the financial strength of the applicant, the integrity of the applicant's board of directors and executive officers, the applicant's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. We own, directly or indirectly, all of the shares of stock of insurance companies domiciled in the states listed in the General section above. Control is generally presumed to exist through the ownership of 10% (5% in the case of Florida, in which certain of our insurance subsidiaries are domiciled) or more of the voting securities of a domestic insurance company or of any company that controls a domestic insurance company. Any purchaser of shares of common stock representing 10% (5% in the case of Florida) or more of the voting power of our capital stock will be presumed to have acquired control of our domestic insurance subsidiaries unless, following application by that purchaser in each insurance subsidiary's state of domicile, the relevant insurance commissioner determines otherwise.

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In addition to these filings, the laws of many states contain provisions requiring pre-notification to state agencies prior to any change in control of a non-domestic insurance company admitted to transact business in that state. While these pre-notification statutes do not authorize the state agency to disapprove the change of control, they do authorize issuance of cease and desist orders with respect to the non-domestic insurer if it is determined that some conditions, such as undue market concentration, would result from the acquisition.

Any future transactions that would constitute a change in control of any of our insurance subsidiaries would generally require prior approval by the insurance departments of the states in which our insurance subsidiaries are domiciled or commercially domiciled and may require pre-acquisition notification in those states that have adopted pre-acquisition notification provisions and in which such insurance subsidiaries are admitted to transact business. Regulatory approval for a change of control may also be required in one or more of the foreign jurisdictions in which we have insurance subsidiaries.

These requirements may deter, delay or prevent transactions affecting the control of our common stock, including transactions that could be advantageous to our stockholders.

### *Insurance Regulatory Information System*

The NAIC Insurance Regulatory Information System (IRIS) was developed to help state regulators identify companies that may require special attention. The IRIS system consists of a statistical phase and an analytical phase whereby financial examiners review annual statements and financial ratios. The statistical phase consists of 12 key financial ratios based on year-end data that are generated from the NAIC database annually; each ratio has an established usual range of results. These ratios assist state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies.

A ratio result falling outside the usual range of IRIS ratios is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. Generally, an insurance company will become subject to regulatory scrutiny if it falls outside the usual ranges of four or more of the ratios. In the past, variances in certain ratios of our insurance subsidiaries have resulted in inquiries from insurance departments, to which we have responded. These inquiries have not led to any restrictions affecting our operations.

### *Risk-Based Capital (RBC) Requirements*

In order to enhance the regulation of insurer solvency, the NAIC has adopted formulas and model laws to implement RBC requirements for life and health insurers, for property and casualty insurers, and, most recently, for health organizations. These formulas and model laws are designed to determine minimum capital requirements and to raise the level of protection that statutory surplus provides for policyholder obligations.

Under laws adopted by individual states, insurers having less total adjusted capital (generally, as defined by the NAIC), than that required by the relevant RBC formula will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. The RBC laws provide for four levels of regulatory action. The extent of regulatory intervention and action increases as the ratio of total adjusted capital to RBC falls. The first level, the company action level, requires an insurer to submit a plan of corrective actions to the regulator if total adjusted capital falls below 200% of the RBC amount (or below 250%, when the insurer has a negative trend as defined under the RBC laws if the insurer is a life or health insurer). The second level, the regulatory action level, requires an insurer to submit a plan containing corrective actions and requires the relevant insurance commissioner to perform an examination or other analysis and issue a corrective order if total adjusted capital falls below 150% of the RBC amount. The third level, the authorized control level, authorizes the relevant insurance commissioner to take whatever regulatory actions considered necessary to protect the best interests of the policyholders and creditors of the insurer, which may include the actions necessary to cause the insurer to be placed under regulatory control, i.e., rehabilitation or liquidation, if total adjusted capital falls below 100% of the RBC amount. The fourth action level is the mandatory control level, which requires the relevant insurance commissioner to place the insurer under regulatory control if total adjusted capital falls below 70% of the RBC amount.

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The formulas have not been designed to differentiate among adequately capitalized companies that operate with higher levels of capital. Therefore, it is inappropriate and ineffective to use the formulas to rate or to rank these companies. At December 31, 2003, all of our insurance subsidiaries had total adjusted capital in excess of amounts requiring company or regulatory action at any prescribed RBC action level.

### ***Federal Regulation***

#### *General*

In 1945, the U.S. Congress enacted the McCarran-Ferguson Act which declared the regulation of insurance to be primarily the responsibility of the individual states. Although repeal of McCarran-Ferguson is debated in the U.S. Congress from time to time, the federal government generally does not directly regulate the insurance business. However, federal legislation and administrative policies in several areas, including healthcare, pension regulation, age and sex discrimination, financial services regulation, securities regulation, privacy laws, terrorism and federal taxation, do affect the insurance business.

#### *Federal Securities Regulation of Fortis Variable Insurance Product Business*

Two of our subsidiaries, Fortis Benefits Insurance Company and First Fortis Life Insurance Company, are subject to various federal securities regulations because they have been involved in the issuance of variable insurance products that are required to be registered as securities under the Securities Act of 1933 (Securities Act). These registered insurance contracts, which are no longer being sold, have been 100% reinsured with The Hartford through modified coinsurance agreements. The Hartford now administers this closed block of business pursuant to a third-party administration agreement. Nevertheless, because these two subsidiaries are still considered the issuers of the products, they are subject to regulation by the SEC. As a result, they must file periodic reports under the Securities Exchange Act of 1934, as amended (Exchange Act) and are periodically examined for compliance with applicable federal securities laws by the SEC. See also Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisitions and Dispositions of Businesses.

#### *The Health Insurance Portability and Accountability Act of 1996 (HIPAA)*

As with other lines of insurance, the regulation of health insurance historically has been within the domain of the states. However, HIPAA and the implementing regulations promulgated thereunder by the Department of Health and Human Services impose new obligations for issuers of health and dental insurance coverage and health and dental benefit plan sponsors. HIPAA requires certain guaranteed issuance and renewability of health insurance coverage for individuals and small employer groups (generally 50 or fewer employees) and limits exclusions based on pre-existing conditions. Most of the insurance reform provisions of HIPAA became effective for plan years beginning on or after July 1, 1997.

HIPAA also establishes new requirements for maintaining the confidentiality and security of individually identifiable health information and new standards for electronic health care transactions. The Department of Health and Human Services promulgated final HIPAA regulations in 2002. The privacy regulations required compliance by April 2003, the electronic transactions regulations by October 2003 and the security regulations by April 2005. As have other entities in the health care industry, we have incurred substantial costs in meeting the requirements of these HIPAA regulations and expect to continue to incur costs to achieve and to maintain compliance. We have been working diligently to comply with these regulations in the time periods required. However, there can be no assurances that we will achieve such compliance with all of the required transactions or that other entities with which we interact will take appropriate action to meet the compliance deadlines. Moreover, as a consequence of these new standards for electronic transactions, we may see an increase in the number of health care transactions that are submitted to us in paper format, which could increase our costs to process medical claims.

HIPAA is far-reaching and complex and proper interpretation and practice under the law continue to evolve. Consequently, our efforts to measure, monitor and adjust our business practices to comply with

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HIPAA are ongoing. Failure to comply could result in regulatory fines and civil lawsuits. Knowing and intentional violations of these rules may also result in federal criminal penalties.

*The Terrorism Risk Insurance Act*

On November 26, 2002, the Terrorism Risk Insurance Act was enacted to ensure the availability of insurance coverage for terrorist acts in the United States. This law requires insurers writing certain lines of property and casualty insurance to offer coverage against certain acts of terrorism causing damage within the United States or to U.S. flagged vessels or aircraft. In return, the law requires the federal government to indemnify such insurers for 90% of insured losses resulting from covered acts of terrorism, subject to a premium-based deductible. Any existing policy exclusions for such coverage were immediately nullified by the law, although such exclusions may be reinstated if either the insured consents to reinstatement or fails to pay any applicable increase in premium resulting from the additional coverage within 30 days of being notified of such an increase. It should be noted that an act of terrorism as defined by the law excludes purely domestic terrorism. For an act of terrorism to have occurred, the U.S. Secretary of the Treasury must make several findings, including that the act was committed on behalf of a foreign person or foreign interest. The law expires automatically at the end of 2005.

The Terrorism Risk Insurance Act required the U.S. Secretary of the Treasury to conduct an expedited study as to whether or not group life insurance should be covered under the law. Based on the study, the Secretary concluded that inclusion of group life insurance was not appropriate.

We have a geographically diverse block of group life business and have secured limited reinsurance protection against catastrophic losses in our group life product line. Nevertheless, we are exposed to the risk of substantial group life losses from a catastrophe, including a terrorist act.

Given that our property and casualty insurance products primarily cover personal residences and personal property, we do not believe our property and casualty exposure to terrorist acts to be significant.

*USA PATRIOT Act*

On October 26, 2001, the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 was enacted into law as part of the USA PATRIOT Act. Among its many provisions the law requires that financial institutions adopt anti-money laundering programs that include policies, procedures and controls to detect and prevent money laundering, designate a compliance officer to oversee the program and provide for employee training, and periodic audits in accordance with regulations proposed by the U.S. Treasury Department. Proposed Treasury regulations governing portions of our life insurance business would require us to develop and implement procedures designed to detect and prevent money laundering and terrorist financing. We remain subject to U.S. regulations that prohibit business dealings with entities identified as threats to national security. We have licensed software to enable us to detect and prevent such activities in compliance with existing regulations and we are developing policies and procedures designed to comply with the proposed regulations should they come into effect.

There are significant criminal and civil penalties that can be imposed for violation of the aforementioned Treasury regulations. We believe that the steps we are taking to comply with the current regulations and to prepare for compliance with the proposed regulations should be sufficient to minimize the risks of such penalties.

*Gramm-Leach-Bliley Act*

On November 12, 1999, the Gramm-Leach-Bliley Act of 1999 became law, implementing fundamental changes in the regulation of the financial services industry in the United States. The act permits the transformation of the already converging banking, insurance and securities industries by permitting mergers that combine commercial banks, insurers and securities firms under one holding company. Under the Act, national banks retain their existing ability to sell insurance products in some circumstances. In addition, bank holding companies that qualify and elect to be treated as financial holding companies may engage in

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activities, and acquire companies engaged in activities, that are financial in nature or incidental or complementary to such financial activities, including acting as principal, agent or broker in selling life, property and casualty and other forms of insurance, including annuities. A financial holding company can own any kind of insurance company or insurance broker or agent, but its bank subsidiary cannot own the insurance company. Under state law, the financial holding company would need to apply to the insurance commissioner in the insurer's state of domicile for prior approval of the acquisition of the insurer, and the act provides that the commissioner, in considering the application, may not discriminate against the financial holding company because it is affiliated with a bank. Under the Act, no state may prevent or interfere with affiliations between banks and insurers, insurance agents or brokers, or the licensing of a bank or affiliate as an insurer or agent or broker. Privacy provisions of the Act became fully effective in 2001. These provisions established consumer protections regarding the security and confidentiality of nonpublic personal information and require us to make full disclosure of our privacy policies to our customers.

*Regulation by the Federal Reserve Board*

Fortis Bank, which is a subsidiary of Fortis, obtained approval in 2002 from state banking authorities and the Federal Reserve Board to establish branch offices in Connecticut and New York. By virtue of the opening of these offices, the U.S. operations of Fortis, including our operations, became subject to the nonbanking prohibitions of Section 4 of the BHCA. In order to continue to operate its U.S. nonbanking operations, including the insurance activities conducted by our subsidiaries, Fortis notified the Federal Reserve Board of its election to be a financial holding company for purposes of the BHCA and the Federal Reserve Board's implementing regulations in Regulation Y. Pursuant to Fortis' status as a financial holding company, Fortis and its subsidiaries, including our subsidiaries, are permitted to engage in nonbanking activities in the United States that are financial in nature or incidental to a financial activity as defined in Section 4(k) of the BHCA and in Regulation Y. In particular, Fortis' status as a financial holding company permits Fortis to engage in the United States in both banking activities through the U.S. branches of Fortis Bank and insurance activities through our subsidiaries. Activities that are financial in nature include, among other things, insuring, guaranteeing or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent or broker for purposes of the foregoing.

Fortis will continue to qualify as a financial holding company so long as Fortis Bank remains well capitalized and well managed as those terms are defined in Regulation Y. Generally, Fortis Bank will be considered well capitalized if it maintains tier 1 and total risk-based capital ratios of at least 6% and 10%, respectively, and will be considered well managed if it has received at least a satisfactory composite rating of its U.S. branch operations at its most recent examination. As a general matter, as long as Fortis controls us within the meaning of the BHCA or owns more than 5% of any class of our voting shares, the BHCA does not permit us to engage in nonfinancial activities such as manufacturing, distribution of goods and real estate development except to the extent that another exemption under the BHCA, such as the merchant banking exemption, is available. If the Federal Reserve Board were to determine that any of our existing activities were not insurance activities or not otherwise financial in nature or not incidental to such activities, or if Fortis lost and was unable to regain its financial holding company status, we could be required to restructure our operations or divest some of these operations, which could result in increased costs and reduced profitability.

The Federal Reserve Board oversees all of Fortis' direct and indirect U.S. subsidiaries for compliance with the BHCA, including our Company. Our Company will be considered a subsidiary of Fortis so long as Fortis owns 25% or more of any class of our voting shares or otherwise controls us within the meaning of the BHCA. In addition, even if we are not a subsidiary of Fortis, the nonfinancial activities restrictions of the BHCA and Regulation Y (discussed above) would continue to apply so long as Fortis owned more than 5% of any class of our voting shares and another BHCA exemption, such as the merchant banking exemption, is not available.

*Legislative Developments*

Legislation has been introduced in the U.S. Congress that would allow state-chartered and regulated insurance companies, such as our insurance subsidiaries, to choose instead to be regulated exclusively by a

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federal insurance regulator. We do not believe that such legislation will be enacted during the current Congressional term.

Numerous proposals to reform the current health care system have been introduced in the U.S. Congress and in various state legislatures. Proposals have included, among other things, modifications to the existing employer-based insurance system, a quasi-regulated system of managed competition among health insurers, and a single-payer, public program. Changes in health care policy could significantly affect our business. For example, federally mandated, comprehensive major medical insurance, if proposed and implemented, could partially or fully replace some of our current products. Furthermore, legislation has been introduced from time to time in the U.S. Congress that could result in the federal government assuming a more direct role in regulating insurance companies.

In addition, the U.S. Congress is considering the expansion of risk retention groups, which were originally established in 1986 to address the lack of available product liability insurance. Risk retention groups may be chartered in a state with favorable regulations and then proceed to do business in any state, even though insurance companies competing in the other states may be subject to more stringent regulations. This is a continuing risk to the extended service contract business at Assurant Solutions.

There is also legislation pending in the U.S. Congress and in various states designed to provide additional privacy protections to consumer customers of financial institutions. These statutes, including the Fair Credit Reporting Act, and similar legislation and regulations in the United States or other jurisdictions could affect our ability to market our products or otherwise limit the nature or scope of our insurance operations.

The NAIC and individual states have been studying small face amount life insurance for the past two years. Some initiatives that have been raised at the NAIC include further disclosure for small face amount policies and restrictions on premium to benefit ratios. The NAIC is also studying other issues such as suitability of insurance products for certain customers. This may have an effect on our pre-funded funeral insurance business. Suitability requirements such as a customer assets and needs worksheet could extend and complicate the sale of pre-funded funeral insurance products.

Medical Savings Accounts were created by U.S. Congress as a trial program in 1996. MSAs allow self-employed individuals, as well as employees of small employers (i.e., employers with 50 or fewer employees), to set aside funds on a tax-free basis for the purpose of paying eligible medical expenses, so long as such persons are covered under a high-deductible health insurance policy. MSA health insurance policies have become an important and growing product line for Assurant Health. On December 8, 2003, the Medicare Prescription & Modernization Act was signed into law. This Act includes a provision providing for HSAs. In addition, the House passed a 12-month extension on MSAs, providing a transition period for the continued offering of MSAs.

We are unable to evaluate new legislation that may be proposed and when or whether any such legislation will be enacted and implemented. However, many of the proposals, if adopted, could have a material adverse effect on our financial condition, cash flows or results of operations, while others, if adopted, could potentially benefit our business.

## **Foreign Jurisdictions**

A portion of our business is carried on in foreign countries. We have insurance subsidiaries domiciled in Argentina, Brazil, the Dominican Republic, the Turks and Caicos Islands and the United Kingdom. Certain subsidiaries operate in Canada under the branch system. The degree of regulation and supervision in foreign jurisdictions varies from minimal in some to stringent in others. Generally, our insurance subsidiaries operating in such jurisdictions must satisfy local regulatory requirements. Licenses issued by foreign authorities to our insurance subsidiaries are subject to modification or revocation by such authorities, and these subsidiaries could be prevented from conducting business in certain of the jurisdictions where they currently operate. In the past, we have been allowed to modify our operations to conform with new licensing requirements in most jurisdictions.

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In addition to licensing requirements, our foreign operations are also regulated in various jurisdictions with respect to:

currency, policy language and terms;

amount and type of security deposits;

amount and type of reserves;

amount and type of local investment; and

the share of profits to be returned to policyholders on participating policies.

Some foreign countries regulate rates on various types of policies. Certain countries have established reinsurance institutions, wholly or partially owned by the state, to which admitted insurers are obligated to cede a portion of their business on terms which do not always allow foreign insurers full compensation. In some countries, regulations governing constitution of technical reserves and remittance balances may hinder remittance of profits and repatriation of assets.

**Table of Contents****MANAGEMENT****Directors**

The table below sets forth the names, ages and positions of our directors:

Name	Age	Positions
John Michael Palms(1)	68	Chairman of the Board
J. Kerry Clayton(1)	58	Director, President and Chief Executive Officer
Michel Baise(3)	55	Director
Robert J. Blendon(1)	61	Director
Beth L. Bronner(1)	52	Director
Howard L. Carver(3)	59	Director
Allen R. Freedman(3)	63	Director
H. Carroll Mackin(2)	63	Director
Gilbert Mittler(3)	54	Director

(1) Denotes Class I Director with term to expire in 2005.

(2) Denotes Class II Director with term to expire in 2006.

(3) Denotes Class III Director with term to expire in 2007.

Pursuant to our by-laws, our board of directors is classified. These classifications have been denoted above.

**John Michael Palms, Ph.D., D.Sc., Chairman of the Board.** Dr. Palms has been a member of our board of directors since March 1990 and became Chairman in October 2003. Dr. Palms is a Distinguished University Professor at the University of South Carolina and was the President of the University of South Carolina from 1991 until his retirement in 2002. Earlier in his career, Dr. Palms served as President of Georgia State University and as a professor and administrator at Emory University. Dr. Palms currently serves on the boards of the Computer Task Group and Simcom International and is the Chair of the Exelon Corporation's audit committee. He is also Chairman of the Board of the Institute for Defense Analyses. In the past, Dr. Palms has been a member of various additional company committees and boards including the University of South Carolina's Educational and Development Foundation Boards, NationsBank of the Carolinas' audit committee, the audit committee of the Board of Directors of Carolina First Bank, the Mynd Corporation's compensation committee and Chair of PECO Energy's nuclear committee.

**J. Kerry Clayton, President, Chief Executive Officer and Director.** Mr. Clayton has been President and Chief Executive Officer of the Company since May 2000 and has been a member of our board of directors since March 1999. From 1993 to 1999, Mr. Clayton served as Executive Vice President of the Company with a variety of responsibilities. From 1985 to 1993, Mr. Clayton served as President of Fortis Benefits Insurance Company, which acquired and combined the operations of Western Life Insurance Company, St. Paul Life Insurance Company and the Group Division of Mutual Benefit Life. He also served as Senior Vice President, Finance of the Company from 1981 to 1985. From 1970 to 1980, Mr. Clayton held various positions with American Security Group (now part of Assurant Solutions), which was acquired by the Company in 1980.

**Michel Baise, Director.** Mr. Baise has been a member of our board of directors since October 2003. Mr. Baise is currently General Manager, Finance of Fortis and has held this position since 1994. From 1989 to 1994, Mr. Baise worked for Société Générale de Belgique, as Advisor in the Industrial Subsidiaries and Strategy Division. Between 1982 and 1989, Mr. Baise served in various management positions and as a member of the Executive Committee of the Belgian Bank in Hong Kong and Belgium. This was preceded by assignments at the European Asian Bank as Credit Manager in Hamburg, Germany from 1981 to mid-1982, and Operations Manager in Singapore from 1977 to 1980. Mr. Baise began his career in 1972 as a management trainee at Generale Bank, later named Fortis Bank, and held various positions there including Deputy Manager of the Bills Department until 1977. Mr. Baise is Director and Chairman of Fortis



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Finance NV, a subsidiary of Fortis Insurance N.V. He is also Director and Chairman of various financing vehicles in Luxemburg: Fortfinlux SA, FGF Lux SA, Fortinvestlux SA and in Jersey: Fortis Capital Company, Ltd. He is a member of the Supervisory Board of a mortgage bank in The Netherlands as a subsidiary of Fortis Bank Nederland.

**Dr. Robert J. Blendon, Sc.D., Director.** Dr. Blendon has been a member of our board of directors since March 1993. Dr. Blendon has been a professor of Health Policy at Harvard University's School of Public Health and a professor of Political Analysis at Harvard University's Kennedy School of Government since 1987. Previously, he served as Vice President of The Robert Wood Johnson Foundation.

**Beth L. Bronner, Director.** Ms. Bronner has been a member of our board of directors since January 1994. Ms. Bronner is currently Senior Vice President and Chief Marketing Officer of Jim Beam Brands, a division of Fortune Brands. Prior to joining Jim Beam in 2003, Ms. Bronner was a Partner at LERA Consulting in Chicago, Illinois. Prior to joining LERA Consulting in 2002, Ms. Bronner was the President and Chief Operating Officer of ADVO, Inc., the nation's largest full-service targeted direct mail marketing company. Before joining ADVO, Inc. in 2000, Ms. Bronner was President of the Health Division at Sunbeam Corporation. She was also a Senior Vice President and Director of Marketing of North American Consumer Banking at Citibank, N.A. and Vice-President of Emerging Markets for AT&T Company. Since 1993, she has been a member of the board of directors of The Hain-Celestial Group Inc., and has chaired its compensation committee. She also served as a member of Oak Industries, Inc.'s audit committee from 1996 until its 2000 merger with Corning Incorporated. Ms. Bronner also serves on the boards of several charitable organizations; she is currently serving as a board member of the Cradle Foundation and is on the board of trustees of the Goodman Theater in Chicago, Illinois. She is a former trustee of the New School in New York City.

**Howard L. Carver, Director.** Mr. Carver has been a member of our board of directors since June 2002. Mr. Carver is retired as an Office Managing Partner of Ernst & Young. Mr. Carver's career at Ernst & Young spanned five decades, beginning as an auditor and a financial consultant. He later became the director of insurance operations in several Ernst & Young offices, and served as Regional Director of insurance operations, Associate National Director of insurance operations, Co-Chairman of Ernst & Young's International insurance committee and was a member of the Ernst & Young National Insurance Steering Committee. He retired from Ernst & Young in June of 2002. He currently chairs the audit committees of the Company and the Phoenix National Trust Company, a wholly owned subsidiary of the Phoenix Group. Mr. Carver is a Certified Public Accountant and is a member of both the American Institute of Certified Public Accountants, and the Connecticut Society of CPAs. Mr. Carver also serves on the boards and/or finance committees of several civic/charitable organizations.

**Allen R. Freedman, Director.** Mr. Freedman has been a member of our board of directors since its inception in 1979. Mr. Freedman is currently the owner and principal of A.R. Freedman & Co., a corporate strategy development firm and is the former Chairman and Chief Executive Officer of the Company, where he served as Chief Executive Officer until May 2000 and Chairman until his retirement in July 2000. In 1979, Mr. Freedman became the Company's president and first employee, initiating the Company's initial strategy and orchestrating its growth over the next 21 years. He began his career in 1964 as a tax lawyer, and a year later, he joined the Internal Revenue Service's Office of the Chief Counsel. Mr. Freedman served as Vice President of D.H. Magid & Co. from 1967 to 1970. From there, he served as Vice President of Irving Trust Company (now Bank of New York). In 1975, Mr. Freedman became Executive Vice President and Treasurer of Lewis R. Eisner & Co., where he managed the creation of what is now Assurant in the United States, along with several other investments made by predecessors of Assurant. Beginning in 1978, he initiated and supervised most aspects of Assurant's U.S. operations. Since his retirement as Chairman and Chief Executive Officer of the Company, he has served as a Director of Cornerstone Family Services, Chairman of its audit committee and a member of its investment committee. Since 1984, Mr. Freedman has also served as Chairman of the audit committee of Systems & Computer Technologies Corporation (SCTC). In January 2002, he became the Chairman of the Board of SCTC. Most recently, he has become a member of the board of directors of the newly formed Association of Audit Committee Members, Inc.

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**H. Carroll Mackin, Director.** Mr. Mackin is the former Executive Vice President and Treasurer of the Company, where he served from 1980 until his retirement in 1997. Mr. Mackin has been a member of our board of directors since October 1996. Mr. Mackin served as a consultant to the Company in 1979. He was the Company's fourth employee and initiated many of the Company's early activities, including consolidating its investment departments and its first treasury function. Before joining the Company, he was Director for Investments at Forstmann, Leff. He is currently principal owner of Great Northern Manufacturing, LLC, a Louisville, Kentucky-based manufacturer of specialty nails.

**Gilbert Mittler, Director.** Mr. Mittler is the Chief Financial Officer of Fortis, and has been a member of our board of directors since March 2003. Mr. Mittler joined AG Group, one of the founding companies of Fortis, in 1988 and became at the inception of Fortis in 1990 Director of Fortis Group Finance & Development and Secretary of the Executive and Supervisory Boards of Fortis. He began his career as an accountant at Arthur Andersen in 1974, and subsequently worked for Belgian holding company Sofina as Senior Officer from 1976 to 1988. In 1988, he was recruited to serve as Head of Corporate Development of the AG Group (now Fortis AG), and in 1993 became Managing Director of ASLK Bank (now Fortis Bank) and a member of its Executive Committee, responsible for Finance & Control and foreign operations. In 1998, he became a member of the executive committee of Fortis, and a year later, he was named Managing Director of Fortis (B) and Fortis (NL), maintaining various responsibilities at group level. Since September 2000, he has served as Chief Financial Officer of Fortis and since 2001 also as Managing Director and Chief Financial Officer of Fortis Bank. Mr. Mittler is a member of the board of directors of Caifor, Fortis AG, Fortis Bank and Fortis Insurance N.V. He is also Vice-Chairman of the board of directors of the Banque Générale du Luxembourg and a member of Fortis ASR N.V.'s Raad van Commissarissen (Supervisory Board).

**Composition of Board of Directors**

Our by-laws provide that our board of directors shall consist of such number of directors as from time to time fixed exclusively by resolution of the board of directors. However, our certificate of incorporation and the shareholders' agreement that we entered into with Fortis Insurance N.V. provide that for so long as Fortis owns at least 10% of our outstanding common stock, our board of directors shall consist of no more than 12 directors (including at least seven independent directors at such time as is required by the listing standards of the New York Stock Exchange). The current board of directors consists of twelve persons and is divided into three classes. There are currently three vacancies arising from the resignation of three Fortis designees. Each director will serve a three year term, with termination staggered according to class, except that Class I Directors will have an initial term expiring in 2005 and Class II Directors will have an initial term expiring in 2006. The classification and current term of office of each of our directors has been noted in the table listing our board of directors under Directors.

Pursuant to the shareholders' agreement that we entered into with Fortis Insurance N.V., Fortis has the right to nominate designees to our board of directors and, subject to limited exceptions, our board of directors will nominate those designees as follows: (i) so long as Fortis owns at least 10% of our outstanding common stock, two designees (out of a maximum of 12 directors); and (ii) so long as Fortis owns less than 10% but at least 5% of our outstanding common stock, one designee. Currently, Fortis has two designees on our board of directors, consisting of Messrs. Baise and Mittler. Fortis has agreed to cause the appropriate number of Fortis designees to resign promptly at any time when the number of Fortis designees on our board of directors exceeds the number of designees to which Fortis is entitled, unless otherwise requested by us.

**Committees of the Board of Directors**

*Executive Committee.* The Executive Committee is composed of Messrs. Baise, Clayton, Freedman and Palms and is chaired by Mr. Clayton. This committee acts for the board of directors when a meeting of the full board is not practical.

*Compensation Committee.* The Compensation Committee is composed of Ms. Bronner and Messrs. Freedman and, Mittler and is chaired by Mr. Freedman. This committee approves, administers and interprets our compensation and benefit policies, including our executive incentive programs. It reviews and

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makes recommendations to our board of directors to ensure that our compensation and benefit policies are consistent with our compensation philosophy and corporate governance principles. This committee is also responsible for establishing our CEO's compensation.

*Audit Committee.* The Audit Committee is composed of Messrs. Carver, Mackin and Palms and is chaired by Mr. Carver. This committee has general responsibility for the oversight and surveillance of our accounting, reporting and financial control practices. Among other functions, the committee retains our independent public accountants. Each member of the Audit Committee is a non-management director. Mr. Carver is a financial expert within the definition of that term under the regulations under the Securities Act.

*Nominating and Corporate Governance Committee.* The Nominating and Corporate Governance Committee is composed of Messrs. Blendon, Mittler and Palms and is chaired by Dr. Palms. This committee oversees our governance policies, nominates directors for election by the board or by stockholders, nominates committee chairpersons and nominates directors for membership on the committees of the board.

### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee is composed of Ms. Bronner and Messrs. Freedman and Mittler. There are no interlocks, as defined by the SEC, with respect to any member of the Compensation Committee.

### **Director Compensation**

Our board of directors adopted and our sole stockholder prior to our initial public offering approved the Assurant Directors Compensation Plan, as amended on December 12, 2003, which became effective following our initial public offering. The purpose of the plan is to attract, retain and compensate highly qualified individuals for service as members of the board of directors by providing them with competitive compensation and an ownership interest in our common stock. Directors who are employees of the Company or any of its subsidiaries or affiliates, or of Fortis Insurance N.V. or any of its subsidiaries or affiliates, and directors who are designated by Fortis to serve as directors pursuant to the shareholders' agreement between the Company and Fortis Insurance N.V., are not eligible to participate in the plan or to receive payment for service as a director.

The plan provides for payment of an annual retainer to our non-employee directors of \$35,000, payable in cash quarterly. Additional annual retainers will be paid to the Chairman of the Board and committee members and chairpersons as follows: Chairman of the Board: \$7,500; Audit Committee: member \$3,750, chairperson \$7,500; Compensation Committee: member \$2,500, chairperson \$5,000; Corporate Governance and Nominating Committee: member \$2,500, chairperson \$5,000; Executive Committee: none. Annual service for this purpose relates to the approximate 12-month periods between annual meetings of our stockholders. A prorated retainer will be paid to any person who becomes a non-employee director other than by election at an annual meeting. The plan also provides for the payment of participation fees of \$2,000 for each board or committee meeting and \$500 for each board or committee conference call (but not more than one fee for meetings or conference calls held on the same day). The Chairman of the Board or chairperson of a committee may authorize the full meeting fee to be payable with respect to any extended conference call or any other special off-site meeting required as part of a director's service. The plan provides for reasonable reimbursement of travel expenses in connection with attending meetings of our board and its committees, and other company functions where the director's attendance is requested by our Chief Executive Officer. A participant may elect to have any cash amounts payable under the Directors Compensation Plan transferred to the Assurant Investment Plan, described under Management Compensation and Incentive Plans.

In addition to cash compensation, the plan provides that each non-employee director will receive, on the later of the effective date of the plan or the first date he or she becomes a non-employee director, an initial award of (1) shares of our common stock having a grant date value equal to the normal (non-prorated) annual cash retainer amount for such year, excluding any retainer related to a committee member or chairperson assignment, and (2) stock appreciation rights with respect to an equal number of shares of common stock. On the day following each annual meeting of our stockholders, beginning in 2005, each non-employee director

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then in office (other than a director who first became a non-employee director at the stockholders meeting held on the previous day) will receive (1) an award of stock having a grant date value equal to the director's annual cash retainer for such year, excluding any retainer earned by the director as a committee member or chair, and (2) an award of stock appreciation rights with respect to an equal number of shares of common stock. In no event will a director receive both an initial award and an annual award of shares and stock appreciation rights for the same year of service. The stock appreciation rights granted under the plan will have a base value equal to the fair market value of our common stock on the date of grant. Upon exercise of a stock appreciation right, a director will receive a cash payment equal to the excess, if any, of the fair market value of one share of our common stock on the date of exercise over the base value of the right. Stock appreciation rights granted under the plan will be fully vested on the date of grant, but may not be exercised until the fifth anniversary of the date of grant. To the extent not previously exercised, such rights will be automatically exercised on the earlier of the first anniversary of the grantee's termination as a director of the Company for any reason or the tenth anniversary of the date of grant.

Subject to adjustment for recapitalization events, the maximum number of shares of our common stock that may be issued under the Directors Compensation Plan is 500,000. The plan will remain in effect until the day following the 2013 annual meeting of our stockholders, unless terminated earlier by our board of directors. The board of directors may at any time terminate or amend the plan, but any such amendment would be subject to stockholder approval if, in the reasonable judgment of the board, the amendment would constitute a material change requiring stockholder approval under applicable laws or the applicable requirements of a stock exchange on which our stock is listed.

## **Consulting Agreement and Retirement Plan**

Effective July 31, 2000, Mr. Freedman retired as the Chief Executive Officer of the Company. In connection with his retirement, Mr. Freedman entered into a Consulting, Non-Compete and Payments Agreement with us and Fortis Insurance N.V. pursuant to which he agreed to (1) perform consulting services for the Company for a period of three years from and after July 31, 2000, and (2) refrain from certain activities that would be in competition with the Company, which includes refraining from encouraging, soliciting or inducing any officer or employee of the Company or its subsidiaries to enter into an employment relationship with any entity whose business activities are in competition with those of the Company for a period of five years ending July 31, 2005. Pursuant to the terms of this agreement, Mr. Freedman has received total payments of \$2,491,000 and is entitled to one additional payment of \$607,000 on August 1, 2004, and reimbursement of any reasonable out-of-pocket expenses incurred in providing his consulting services.

On July 19, 1999, Mr. Freedman entered in to a Retirement Agreement with us and Fortis Insurance N.V. relating to the payments and benefits to be provided to Mr. Freedman in connection with his scheduled retirement on July 31, 2000. The agreement provided that: as of the date of Mr. Fre