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Q3 2019 Genworth MI Canada Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Genworth MI Canada Inc. 2019 Third Quarter Earnings Conference Call. (Operator Instructions) I would like to remind everyone that this conference call is being recorded.

I will now turn the conference call over to Aaron Williams, Vice President, Finance and Investor Relations. Mr. Williams, you may proceed.

Aaron Williams

Thank you. Good morning, everyone, and thank you for joining Genworth Canada's Third Quarter 2019 Earnings Call. Leading today's call are Stuart Levings, our President and Executive Officer; and Philip Mayers, our Chief Financial Officer.

We will start with our prepared remarks, followed by an open question-and-answer session. Our news release, including our management's discussion and analysis, the financial statements and financial supplement were released last night and are posted on our website at www.genworth.ca. A link to our live webcast and the slides for today's discussion are also posted on our website. A replay of this call will be available via the other number noted in the press release and will also be available on our website following today's presentation. The call will be available online for approximately 45 days following today.

As a reminder, our presentation and discussion today contain a disclaimer on forward-looking statements and non-IFRS statements on disclosure. We note that our actual results may differ from statements that we make, which are forward-looking. We advise you to read the cautionary note regarding those forward-looking statements. As well, some of the financial metrics presented on this call today are non-IFRS measures and, as such, do not have a standardized meaning and are unlikely to be comparable to similar measures by other companies.

I would now like to turn the call over to Stuart to begin his remarks. Stuart?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Thanks, Aaron. Good morning, and thanks for joining our call.

The business had another strong quarter, particularly in terms of top line growth and capital redeployment. We declared a special dividend of $1.45 per share paid on October 11, and we're pleased to announce an increase of 6% in our ordinary dividend, reflecting our ongoing focus on capital efficiency and the strong earnings profile of our business model.

For the quarter, we delivered net operating income of $115 million, down 5% over the prior year period and 4% over the prior quarter. This resulted in fully diluted operating earnings per share of $1.34, down 1% over the prior year period and 3% over the prior quarter. This was largely a reflection of the gradual normalization of our loss ratio and consistent contribution from premiums earned and invest income.

Premiums earned have stabilized and will continue to benefit from strong top line momentum.

At 18%, our loss ratio came in 5 points higher than the same period in the prior year, driven by ongoing pressure in Alberta and the Prairies and 3 points higher than the prior quarter, largely due to an increase in new delinquencies, net of cures, in Québec and the Atlantic regions. This follows very low levels of losses in those regions during the prior quarter.

As noted on prior calls, we still expect our loss ratio to gradually return the long run pricing levels of approximately 20% to 25% over the next few years, as housing and labor markets return to more historical performance trends. We expect our current loss performance to continue for the remainder of this year with an estimated full year loss ratio range of 15% to 25% and a strong bias towards the lower half of this range.

Net premiums written totaled $218 million, up 11% on a year-over-year basis. As in the prior quarter, this increase was largely due to the momentum we've seen in the level of high ratio mortgage insurance applications during the year, together with ongoing market share momentum.

Overall, we believe the fundamentals supporting first-time homebuyers remain very constructive. We continue to see strong homebuyer activity driven, in our view, by renewed confidence, lower interest rates, a more rational housing market and a strong economic environment. Provided the economy does not slow significantly, we expect this trend to continue into 2020, which should be positive for top line and eventually earnings growth.

Regarding the housing market, we continue to see positive momentum in most major markets, following the initial impact of the B20 stress test in 2018. The notable exception is Alberta, which remains a biased market, exacerbated by the weaker economy in that region. The Greater Vancouver region has begun to see increased sales volumes, which should provide support for house price stability, particularly in the higher-end segment, which has felt the most pressure. The Greater Toronto market has seen growth in both sales volumes and house prices during the year.

Affordability for first-time homebuyers remains a constraining factor in both these markets, particularly for single-detached homes. While the federal First-Time Homebuyer Incentive program has been active now for just under 2 months, it's difficult to draw any conclusions regarding its overall impact from the transactions observed thus far.

We ended the quarter with an estimated MICAT ratio of 172%, 7 points above the upper end of our targeted operating range, driven largely by higher lapse rates in the quarter. As noted earlier, redeployment of excess capital has been an active part of our strategy this year as we focus on capital efficiency. We continue to monitor market size expectation, in-force portfolio lapse rates and business mix to inform our expectations around future capital needs.

We are encouraged by the momentum we see in our top line, and supporting growth in our core business has always been our primary focus for capital deployment. Based on current market trends and new insurance written run rates, we are revising our estimated range of full year redeployable capital to $400 million to $450 million, including the $228 million already returned year-to-date.

We ended the quarter with a book value of $46.37 per share, up 3% over the prior year period, reflecting ongoing profitability, share repurchases and the special dividend declared during the second and third quarter of this year.

With that, I'll turn it over to Phil for a deeper look at our financial results.

Philip Mayers ***Genworth MI Canada Inc. - Senior VP & CFO***

Thanks, Stuart, and good morning.

Overall, business performance in the third quarter was strong with reported net operating income of $115 million, a loss ratio of 18% and a growing top line. We're encouraged by the year-over-year growth in both premiums written and premiums earned this quarter. Premiums earned of $171 million were higher by $2 million sequentially, reflecting the positive contribution from the 7% growth in our year-to-date premiums written.

Losses and claims increased by $5 million quarter-over-quarter to $31 million. This increase was primarily due to a higher number of new delinquencies net of cures and a modestly higher average reserve per delinquency, driven by seasonal increase in the provision for incurred but not reported delinquencies. The number of new delinquencies net of cures totaled 373 in the quarter, representing an increase of 92 sequentially. This increase was mostly attributable to the Québec and Atlantic regions, where net delinquencies rose moderately from the relatively low level in the second quarter.

Overall, the majority of our losses and claims continue to come from Alberta, where home prices have been flat or modestly declined in the recent years. As a result, the effective loan-to-value ratios have generally remained above 80% for the transactional books of business written since 2014, thus, contributing to the elevated level of losses in Alberta.

Our expense ratio of 20% on $33 million of expenses was at the high end of our 18% to 20% target range. While the MIC share price increased significantly during the quarter, there was only a $1 million increase in our share-based compensation expense due to the favorable impact from the related hedging program.

In total, underwriting income was $106 million, with operating investment income adding a further $57 million to our strong profitability. Operating investment income was essentially flat quarter-over-quarter on a relatively stable portfolio yield. Overall, net operating income of $115 million translated into a fully diluted operating EPS of $1.34.

Our combined ratio was sequentially higher at 38% this quarter. This was 3 points higher quarter-over-quarter as the loss ratio increased to 18%.

Looking forward to the fourth quarter, underwriting income should benefit from relatively stable premiums earned, loss ratio and expense ratio as compared to this quarter. In particular, we expect that the loss ratio range should remain in the lower half of our 2019 range of 15% to 25%, which should contribute to a continued trend of strong underwriting income.

With respect to our $6.7 billion investment portfolio, its mix by asset class is generally unchanged, and we're focused on optimizing portfolio yield while maintaining its high credit quality. The portfolio duration is relatively short at 3.6 years, and the pretax equivalent yield was stable at 3.2% at the end of the quarter.

New money yields have generally declined over the course of 2019, but their impact has been largely offset by capital redeployment linked to maturities in the portfolio and the slight increase in our allocation to preferred shares and collateralized loan obligations. Overall, the net result should be relatively stable operating investment income in the fourth quarter.

We continue to actively manage our capital base and declared a $125 million special dividend in September. As we disclosed at the start of the year, the company is generating capital in excess of our desired MICAT operating range of 160% to 165% from ongoing profitability in the aging of 2016 and prior books. The MICAT ratio's estimated at 172% at September 30 after the declaration of special dividend, while holding company cash and liquid investments totaled $226 million before the payment of the special dividend on October 11.

As Stuart noted, lapse rates were higher quarter-over-quarter and favorably impacted the estimated MICAT ratio. With this year's growth in new insurance written, as Stuart noted, we have narrowed the range for capital redeployment to $400 million to $450 million for the full year. This equates to a fourth quarter capital redeployment estimate of $175 million to $225 million. That said, the trend of new insurance written will be a key factor in the determination of the ultimate level of capital redeployment.

We have a 10-year track record of annually increasing our quarterly dividend, and we announced a 6% increase in the quarterly dividend to $0.54 per share payable to shareholders of record on November 8. Overall, our financial flexibility remains strong with a $300 million undrawn credit facility and low leverage of 10%.

In conclusion, we have a proven business model and remain focused in creating shareholder value.

I will now turn the call back to Stuart to conclude our prepared remarks. Stuart?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Thanks, Phil.

I'd like to take an opportunity to provide a brief update on the proposed acquisition of Genworth Financial's 57% stake in our business by Brookfield Business Partners, as announced on August 13, 2019.

While the parties continue to work with the Canadian regulator on obtaining the necessary approvals, we've been focused on developing plans to transition various services historically outsourced to Genworth Financial. Under existing agreements, we have rights to continue receiving these services for an adequate period of time after the closing of the contemplated transaction, and are confident that we can make the transition in an orderly manner that avoids any disruption to our business operations or customers.

It's also important to note that while Genworth Financial currently provides a number of support services in the IT, HR and accounting functions, our Canadian portfolio data is both logically and physically separate from any Genworth Financial data and protected by strong security measures and controls.

Furthermore, we operate our business with our own independently developed insurance underwriting and claims management applications and models. We expect there will be some incremental, one-time, transition-related expenses during the course of 2020. In addition, we may incur modestly higher operating costs as a result of having a stand-alone Canadian IT infrastructure. That said, we believe our expense ratio should trend back towards the 18% to 20% range in the medium term as we leverage technology-driven efficiencies to offset any cost increases.

Throughout the transition, we will continue to focus on our key strategic priorities, including prudent growth, risk management, capital efficiency and investing in technology to drive improvements in our customer service experience.

Thanks for listening. That concludes our prepared remarks. I will now turn the call back to the operator to commence with Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) As a reminder, the conference is being recorded for replay purposes. (Operator Instructions) And your first question comes from Geoff Kwan with RBC Capital Markets.

Geoffrey Kwan ***RBC Capital Markets, LLC, Research Division - Analyst***

So you mentioned on the return of capital $400 million to $450 million planned for this year. You've done roughly about $230 million. Is the plan to announce by year-end around what you -- how you plan to return the rest of it? Or is it you actually plan to return it by year-end?

And then second part of that is, is the Brookfield transaction kind of having any sort of impact as to how you're thinking about capital returns for the remainder of the year?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Geoff, it's Stuart here. I mean to your first part of your question, our goal is to have a capital-efficient base, as you know. And so our goal would be to announce and preferably return within the quarter, but that will be a function of just timing around that.

I don't think you would need to conclude any impact from the Brookfield transaction. It doesn't really weigh in on how we think about either the timing or the form of the return of capital. Our goal, as we said, has been to try and have as efficient a capital base as possible. And that's why we declared that much excess capital, and what we need to do is to return that excess to get to that capital efficiency base.

Philip Mayers ***Genworth MI Canada Inc. - Senior VP & CFO***

And Geoff, it's Phil. And if I might add, I think the bigger determinant in terms of the timing and amount of capital will be in terms of what we see in terms of new insurance written in the month of October and November. I want to make sure that we have a good picture of the MICAT ratio at the end of the year. And typically, we're disciplined and wait until the end of November before assessing the final amount of capital that we believe could be redeployed.

Geoffrey Kwan ***RBC Capital Markets, LLC, Research Division - Analyst***

Okay. So I'll read into that, so we may get an update, so when you guys have your Investor Day then.

Second question I had was on the prior year developments. You guys flagged it as being slightly less positive year-over-year. So just wondering if there's anything, comments you have in terms of latest trends on where that's going, whether or not it's just in the overall book or within specific segments.

Philip Mayers ***Genworth MI Canada Inc. - Senior VP & CFO***

Geoff, it's Phil. I think we saw tremendous improvement in Québec year-over-year. And certainly, we saw that through the first half. And as we noted, the new delinquencies net of cures did sort of normalize from relatively low levels in Québec. So I would say that we're seeing less favorable development coming out of Québec. But overall, development continues to be favorable, and we feel we're very well reserved.

Geoffrey Kwan ***RBC Capital Markets, LLC, Research Division - Analyst***

Okay. And then just one last question is just on Q4. Obviously, we're maybe only just kind of a month into it, but the broader trends we've seen has been gradual improvement in housing activity and home prices, generally speaking, across Canada. Is that your general view as to what you're seeing right now into Q4? And is there anything specific that you're seeing in any of the markets or submarkets that you think is interesting in terms of what's going on?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Yes. Geoff, it's as you said. And as we said, the housing markets' overall definitely on solid footing now and looks to be continuing that way into 2020.

The notable exception, as I mentioned in my comments, is Alberta and the Prairies, where there's still a lot of pressure on the economy, but also on the housing market. So that does contribute in a significant way to our overall loss performance right now. But beyond that, I think we're very optimistic about the outlook for the rest of the country. And certainly, Vancouver, which has been a bit of a laggard in terms of price stability, should start to see that with recovery in the sales volumes there now.

Operator

And your next question comes from Paul Holden with CIBC.

Paul David Holden ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research***

So a question, I guess, on the change in trend for both Atlantic Canada and Québec. You've referred to normalization a number of times now. Is it simply that? Or is there any kind of change in economic or housing conditions do you think that led to that change in delinquency trend in either one of those regions?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Paul, it's really a bounce back to more normal trends in those 2 markets for the quarter. We saw extremely low levels, particularly in Québec, in the second quarter. So I don't -- I would not say that there have been any trend changes in those markets. I think it was really just, if you will, a normalization back to their normal run rates. We expect those markets to continue much the same into next year.

The one market that I'm looking for some improvement eventually is Alberta, and that will help our loss ratio to normalize as it offsets some of the gradual build in losses you'd expect out of Ontario and B.C. as those housing markets and economies return to more historic trends.

Paul David Holden ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research***

Got it. And then any kind of thoughts you can share on the outcome of the federal election and the platforms? I guess what was the platform of the Liberal's ran on and potential impact on housing market and your business as a result?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

We would say there's probably no real impact on our business or the market as a whole. I mean, obviously, there was a fair bit of narrative around affordability, and a lot of the parties did promise measures to try and address that. Given the outcome, I think it's fair to say that the First-Time Homebuyer Incentive program will continue. And it remains to be seen if there will be enhancements to that program, as announced on the campaign trail. But as we've said before, it's probably too early to even really make any meaningful conclusions on what that program will do for the market.

So on balance, I would say, really no impact to our market or our business is our expectation coming out of that election.

Paul David Holden ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research***

Okay, fair. And then third question would be related to the potential trend for premiums earned. You seem much more positive on the potential growth rate for premiums written. And given what we saw for premiums earned in the latest quarter, and with that view, is it fair to say that premiums earned maybe has troughed and is more likely to follow a positive trajectory now going forward?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Yes, absolutely. I mean, it really is, as you said, a function of the top line. And I think our strong top line this year is very positive for the future of earned premiums. And I'll add that our goal is to continue to see that top line grow into the next year. Obviously, it's a function of both the market size and our market share, but we feel positive on both fronts. So that will support earned premium growth as we go forward.

Paul David Holden ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research***

Great. And last question then on the redeployment of capital. As you weigh your decision, I guess, between more special dividends and share buybacks, is there anything that's changed in that decision-making process versus how you thought about the 2 alternatives earlier this year?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

No, there's no change in our approach. It's still an evaluation of the best alternative to redeploy capital. I think it is more a function of timing, as Phil mentioned, as I noted earlier, just being certain around our final volume of NIW for this quarter and also just the trends in the lapse rates, et cetera.

So the process for evaluating the means of return is the same. Given where we're trading, obviously, we lean more towards a special, but that is something we will make a final decision on near the end of November.

Operator

And your next question will come from Graham Ryding with TD Securities.

Graham Ryding ***TD Securities Equity Research - Research Analyst of Financial Services***

Maybe I could just follow on, on the commentary on Alberta delinquencies. Are you expecting delinquencies to continue to trend higher? And is there anything related to perhaps delinquencies from specific vintages that gives you insight into where you see things perhaps trending next year if we make the assumption that macro conditions are similar to what they are now?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Yes. Graham, if the conditions are similar to what they are now, our expectation is that things don't get worse in Alberta. They probably just don't get much better either anytime soon. I think that when you look at the level of house price pressure they've seen, our effective loan-to-values are higher there, as you would imagine. And that does mean a longer consistency of the claims cycle, particularly when you go back even into the 2015 and '14 book year.

So our expectation is that things hold there. If you look at the general economic consensus for that province, it does get more positive next year, but it will take time for that to translate into job growth and into improvement in our delinquency profile there.

Graham Ryding ***TD Securities Equity Research - Research Analyst of Financial Services***

Okay, great. And the expense ratio, there was some commentary there, and looking past sort of maybe one-time expenses that you may face, but if your overall expense ratio moves higher as you shift away from sharing services with Genworth Financial, is that a 2020 dynamic or 2021? And what is reasonable relative to your historical 18% to 20% range? How much higher are you thinking this could trend?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

We are certainly thinking at the beginning on 2020 story because it depends on how quickly we make that transition. And at this point, we're still evaluating our options as far as vendors, et cetera. I can't give you a good estimate now on what that cost increase will be, but I will say that we don't expect it to be significant. I think, at the same time, with the Brookfield ownership, we fully expect to leverage any relationships they have to help keep pricing pressure on any vendors that we engage with.

So ultimately, we're just acknowledging the fact that when you do go to a stand-alone structure, you should expect some increase in costs. But as I mentioned, we're absolutely optimistic that we can bring that back in line with our 18% to 20% through both pricing pressure at the top of the house and also just our own focus on technology efficiencies.

Graham Ryding ***TD Securities Equity Research - Research Analyst of Financial Services***

Okay, great. And maybe if I could just sneak in one more. 10% growth in your transactional premiums year-over-year, how much would you attribute that to market share versus just the overall market expanding?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

It's probably the lion's share is market size expansion. We do feel good about our market share. And I would say we're probably in that 34% range right now, but, ultimately, the market has expanded this year nicely. I think you see it with our lender partners as well. And that's definitely something that will continue into 2020, assuming similar economic conditions in our view.

Operator

And your next question comes from Tom MacKinnon with BMO Capital.

Tom MacKinnon ***BMO Capital Markets Equity Research - MD & Analyst***

I think, Stuart, you talked about a loss ratio of 20% to 25% in the long run, but can you talk about the fourth quarter being in the lower half of the 15% to 25% range? So what's different about the fourth quarter than over the long run? What is in the fourth quarter that's different in your assumptions for the 20% to 25% long run loss ratio?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Well, Tom, what I was saying is that we expect our current loss ratio trends to continue. So we printed an 18% loss ratio for the third quarter, so what we're saying is things won't change dramatically between now and the end of the year. So expect similar levels of loss ratio, but that still puts us for the full year in our lower half of our guidance range, as I mentioned.

The long run, 20% to 25%, that isn't necessarily a 2020 event. That is an ultimate expectation once we see employment and housing markets return to those long run historic trends, which is certainly a higher employment level than what we're seeing right now in the country.

Tom MacKinnon ***BMO Capital Markets Equity Research - MD & Analyst***

Higher unemployment level?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Yes. Yes, sorry, unemployment level. And housing markets are probably arguably already normalized. House price depreciation now, fairly modest. I think it's the unemployment that needs to change. And as you know, that's always been the biggest driver of our losses. But at 5.6%, 5.7%, that's certainly not the long run norm, nor is it sustainable, in our view. And so as that gradually returns to, call it, perhaps full employment at 6.5%, somewhere around there, you should expect to see eventually our loss ratio reflect that in that return to 20% to 25% range.

Operator

And your next question will come from Jaeme Gloyn with National Bank Financial.

Jaeme Gloyn ***National Bank Financial, Inc., Research Division - Analyst***

First question is related to the asset portfolio and the mix, currently a very conservative portfolio. Just want to get your comments around potential opportunities with the relationship with Brookfield and opportunities to enhance that yield through some of their investments.

Philip Mayers ***Genworth MI Canada Inc. - Senior VP & CFO***

Yes. Jaeme, it's Phil. We always continue to look at investment opportunities. I think the thing that we're always very mindful of is balancing quality with the yield. We view preferred shares as being very attractive. We'll continue to evaluate whether we're comfortable increasing the allocation there.

Clearly, we're also very mindful of potential sort of slowdown in the economy or downturn. So we expect we'll continue to be very focused on high credit quality assets. But as we go through the exercise, we will continue to assess the relative contribution of other asset classes relative to our appetite for risk.

And the other thing to remember is lower-rated securities carry higher regulatory capital-weighting. So when we evaluate income opportunities, we're looking at what we would refer to as the capital-adjusted yield because we want to make sure that it's efficient, both from an income perspective, but it's also efficient from a capital perspective. While I wouldn't anticipate any material changes, I think it's more, I would say, changes on the margin rather than wholesale changes.

Jaeme Gloyn ***National Bank Financial, Inc., Research Division - Analyst***

Fair enough. And forgive me, next question, just you might have touched on this in the opening comments. Just any early results that you can share from the First-Time Homebuyers program? And any impacts of that?

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Yes. Jaeme, it's Stuart here. Not really. It's been up and running now just under 2 months, and I would say it's still too early to really draw any meaningful conclusions from that. I think what we do know is that, as was probably talked about a lot before the announcement, it hasn't been a very sort of strong take-up in the Toronto/Vancouver markets, but, beyond that, I think it will be important to see a bit more sort of time line to the belt, if you will, to get a more meaningful impression of what this program will mean to the overall market.

Jaeme Gloyn ***National Bank Financial, Inc., Research Division - Analyst***

Right, okay. And last question, maybe more for Phil. Just looking at the capital required amount, it declined 3.3% this quarter, and that's kind of driven by the roll-off in the mortgages and what we've been talking about now on why there's excess capital in the business. I guess the question is, is that a typical quarterly run rate based on where new insurance written is? The phase out of other benefits and things like that, is that what we should come to expect from capital requirements for the business?

Philip Mayers ***Genworth MI Canada Inc. - Senior VP & CFO***

Well, Geoff -- sorry. Jaeme, what I would say there is that we did see higher lapse this quarter. At the beginning of the year, we sort of messaged that we've seen lower lapse rates as interest rates began to increase. And we actually saw, for the third quarter, a much higher lapse rate than we saw in the first and second quarters. It's premature to say that that's a trend that will continue, so we would caution that the level of reduction of the capital requirements you saw quarter-over-quarter may not repeat as we go into the fourth quarter. Because I think that, back to Stuart's point about affordability, the impact of the mortgage rate stress test, they all have had an impact on lapse rates, and we're not sure that this one quarter is representative of what we might expect in the future. It will take a couple more quarters before we can conclude whether what the normalized run rate will be.

Jaeme Gloyn ***National Bank Financial, Inc., Research Division - Analyst***

Okay. Maybe just to dig in a little bit here on this. Lapse rates, would they have been at a normalized level in Q3? Or was it -- is it still sort of creeping back to that?

Philip Mayers ***Genworth MI Canada Inc. - Senior VP & CFO***

I would say Q3 was higher than what we would expect the long run lapse rate to be. So I would say it was higher than what we would otherwise have expected.

Jaeme Gloyn ***National Bank Financial, Inc., Research Division - Analyst***

Okay. And just in terms of -- maybe asking this a little bit differently then. How much growth in new insurance written would you require to offset the -- a normalized period of loss rates and amortization?

Philip Mayers ***Genworth MI Canada Inc. - Senior VP & CFO***

I would say, because we are running off much larger books from 2016 and prior, it would take a materially higher level of new insurance written to get to the point where you don't see a reduction in the capital required. What we would expect is what you characterize as that significant decline relative to prior quarters. We would expect something more similar to what you saw in the first and second quarter in future quarters if you want to really quantify it, Jaeme.

Operator

(Operator Instructions) Your next question will come from Geoffrey Dunn with Dowling & Partners.

Geoffrey Murray Dunn ***Dowling & Partners Securities, LLC - Partner***

I wanted to follow up on the last question. It's difficult to see exactly the impact of lapse and new business growth on your excess capital abilities quarter-to-quarter, I think. But as we think about your $400 million to $450 million or specifically the $175 million to $225 million for fourth quarter, can you try to frame how that could be affected by NIW and cancellation levels? Is it instead of 5% NIW growth, it's 10% that could put you at the lower end of the range? It's a point or 2 on lapse rate? It just seems that the capital management plan just strikes me as a bit overly sensitive to those near-term trends. I wanted to get a better way to frame up the prospects.

Philip Mayers ***Genworth MI Canada Inc. - Senior VP & CFO***

Good point. The way I would sort of frame it would be that the lapse rate we saw this quarter was probably 50% to 60% higher than what we saw in the preceding quarter. And that equated to an impact on the MICAT ratio of about 3 to 4 points. And that gives you the level of sensitivity that one might see in lapse rates.

The increase you saw in the third quarter was substantially -- the rate you felt was substantially higher than what we saw in the first and second quarter, as I noted. And as we look to the fourth quarter, if the lapse rates were to return to what we saw in the first and second quarter, we would be at the higher end of the range. So it would take a material deterioration over and above what we saw in the first half of the year before we would be at the bottom part of the range.

The bigger -- the reason we have the range is more for the mark-to-market impact on the investment portfolio because the mark-to-market on the investment portfolio, this does impact capital available. And that is the item that is also assessed by them. And, hence, we have the range to also provide for potential impact. If rates were to go higher and the mark-to-market in the portfolio came down, that is going to have an impact on capital available and, hence, the amount available for redeployment. So our range really reflects those two items.

And the third item would be new insurance written. We've had a very strong quarter in the third quarter. We see signs that part of that may carry over to the fourth quarter. And also the potential for portfolio insurance transactions in the fourth quarter is the other item that we sort of factor in when we give the range that we have given.

So Geoff, those are sort of all the factors that impact capital. Hopefully, that is helpful.

Operator

And since there are no further questions, I will turn the call back to Mr. Levings.

Stuart Levings ***Genworth MI Canada Inc. - President, CEO & Director***

Thank you. I'd like to take this opportunity to also remind you about our upcoming Investor Day scheduled from 10 to 11:30 a.m. on Thursday, December 5. Please take a moment to register if you'd like to attend. Thanks, again, for joining us today. We do appreciate your time, and that concludes our third quarter 2019 earnings call.

Operator

And once again, that does conclude the call for today. Thank you for your participation. You may now disconnect.