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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 Fourth Quarter Earnings Conference Call. (Operator Instructions) I would like to remind everyone that this conference call is being recorded today.

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

Aaron Williams ***Genworth MI Canada Inc. - VP of Finance & IR***

Thank you. Good morning, everyone, and thank you for joining Genworth Canada's Fourth Quarter 2019 Earnings Call. Leading today's call are Stuart Levings, our President and Chief 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 discussion and analysis, the financial statement 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 these 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***

Thanks, Aaron. Good morning, and thanks for joining our call. This morning, I'm going to walk through some key financial highlights from our performance in 2019 and share some perspectives on the factors shaping our outlook for 2020.

Phil will discuss some of the highlights from our fourth quarter results. I'll wrap up with a reminder of our key strategic priorities for the year.

We are very pleased with our 2019 results, particularly our top line momentum and the progress towards a more efficient capital structure. Overall, we delivered on our commitments with strong underwriting performance in line with our expectations, proactive investment management and another year of strong portfolio quality.

For the year, we delivered net operating income of $466 million dollars and diluted operating earnings per share of $5.38, up 2% over 2018. This generated a return on equity of 12%. These results reflect consistent premiums earned and growth in operating investment income, offset by higher losses on claims as Alberta and the Prairies continue to feel pressure from weak housing and labor markets.

Net premiums written totaled $701 million dollars, up 10% over the prior year. We are very pleased with the return of growth in the transactional mortgage insurance market, due, in our view, to a more confident, first-time homebuyer and relatively improved affordability, driven by lower interest rates and strong income growth.

At 17%, our full year loss ratio came in towards the lower end of our estimated range of 15% to 25% and up 2 points from the prior year. This performance continues to reflect the value of a high-quality, well-diversified insurance portfolio in a resilient economic environment. As noted at our recent Investor Day, Alberta and the Prairies continue to represent a disproportionately large share of our total losses on claims, reflecting the weaker economic and housing environment in those regions, driven by ongoing pressure on the oil industryWe do, however, expect losses on claims in these two regions to stabilize during this year and gradually improve over the next few years based on the current consensus economic forecast.

Overall, we anticipate our loss ratio to reflect this stabilization, along with ongoing normalization in other regions of the country, and gradually return to our long-run expectation of 20% to 25% over the next few years. Based on our current market assumptions, we expect a full year loss ratio range of 15% to 25% for 2020.

In our view, the majority of Canadian housing markets have adjusted to the mortgage rate stress test and are exhibiting more sustainable dynamics with sales volumes in line with historic norms and modest price appreciation. We are also pleased to note that Alberta's market recently returned to a balanced state in terms of demand and supply, which should bode well for the anticipated recovery in that region.

The greater Vancouver region continues 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. Sales volumes and house price appreciation in the greater Toronto region reflect a fully recovered market and should continue to experience growth in the current year.

Affordability for first-time homebuyers, while relatively improved over the prior year, remains a constraining factor in both these markets, particularly for single detached homes. While the Federal First-Time Home Buyer Incentive program has been in place since the fall of last year, it appears to have had little impact in these two regions. It remains to be seen if any enhancements will be made to the program, and if that will have an impact on affordability in these markets.

While certain risks continue to prevail, including trade uncertainty, geopolitical and other disruptions such as the coronavirus, the general macroeconomic and demographic factors including interest rates, employment, income growth and immigration remains supportive overall for the Canadian housing market.

Consequently, we expect ongoing positive momentum in the housing market, including the first-time homebuyer segment. That, together with our strategy focused on growing market share, should bode well for modest growth in total premiums written in 2020.

We ended the year with an estimated MICAT ratio of 170%, 5 points above the top of our targeted operating range of 160 to 165%. Our capital priorities remain focused on supporting our core business volumes and ordinary dividends, along with redeployment of available excess capital. This continues to be an active part of our strategy as we focus on driving a more efficient capital structure, balancing strength, flexibility and ROE improvement.

As part of our ongoing focus on capital efficiency, we are pleased to have returned a total of $608 million dollars to shareholders during 2019 in the form of share buybacks, ordinary and special dividends. As noted during our Investor Day, our business continues to transition from the relatively larger inforce portfolios written in 2015 and '16 and will continue to generate capital in excess of our organic growth needs in 2020.

Based on our current assumptions, we expect to generate excess capital of $400 million to $500 million dollars this year. This is in addition to the special dividend of $200 million announced on January 15, which will be funded primarily from our new debt facility, increasing our leverage to around 15%, in line with our stated target.

As noted on our third quarter 2019 earnings call, we increased our quarterly dividend by 6% to $0.54 per common share and paid a total of $2.07 per common share for the year, up 8% over the prior year.

At this point, I will turn the call over to Phil for a more detailed review of our fourth quarter results before wrapping up and going to Q&A.

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

Thanks, Stuart, and good morning. Overall, fourth quarter results trended in line with our expectations with reported net operating income of $112 million dollars, a loss ratio of 20% and strong year-over-year growth in total premiums written.

For the full year, total premiums written increased by 10%, and this contributed to premiums earned remaining consistent quarter over quarter at $171 million.

At the same time, losses on claims of $34 million dollars were higher sequentially by $3 million primarily due to typical seasonality.

We saw a small increase of 12 in the number of new delinquencies net of cures as seasonal increases in Ontario and the Prairies were partially offset by decreases in the rest of the country. Another contributor to the higher losses was the modest increase in the average reserve per delinquency reflecting seasonality and the ongoing claims severity pressure in Alberta and the Prairies.

The number of outstanding delinquencies totaled 1,798 representing an increase of 114 year-over-year driven primarily by Alberta and the Prairies. Our expense ratio of 20% was consistent quarter over quarter on total expenses of $35 million, inclusive of a modest increase in the share-based compensation expense.

Total operating investment income of $55 million was generally in line with the prior quarter, and the portfolio yield remained relatively stable around 3.2%. In total, net operating income of $112 million was lower by $3 million sequentially, primarily due to the lower underwriting. These results translated into fully diluted operating EPS of $1.30 for the quarter.

With respect to underwriting profitability, we are pleased with the consistency of premiums earned through the course of 2019. Looking forward to 2020, we expect premiums earned to be flat or modestly higher, reflecting the higher level of premium written in 2019, and the expected continuation of this trend into 2020.

In recent years, we have seen relatively low loss ratios supported by generally stable or improving macroeconomic environment. That said, loss performance in Alberta and the Prairies was pressured by high unemployment levels and weak home prices in 2019. While we expect the economic condition to stabilize, these regions will likely be the key drivers of the 2020 expected loss ratio range of 15% to 25%.

With the closing of the Brookfield transaction, transition efforts are underway to migrate our IT environment and finance systems to stand alone Canadian platforms. With the additional one-time transition expenses, we expect our expense ratio to be at or slightly above 20% in 2020. After 2020, we expect our expense ratio to moderate back within our target range of 18% to 20% as we rationalize our IT infrastructure.

In total, underwriting profitability is expected to remain strong in 2020.

With our focus on capital efficiency and the resulting payment of $200 million special dividend in December 2019, our investment portfolio has declined quarter-over-quarter by approximately $230 million to $6.4 billion. Our asset mix is generally unchanged and the portfolio duration remains relatively short at 3.6 years.

The 2020 outlook is for flat or lower interest rates, while credit spreads are expected to remain relatively tight. Against this backdrop, we are focused on maintaining a high credit quality portfolio with a pretax equivalent book yield around the current level of 3.2%. The redeployment or organically-generated capital will be funded for the most part through bond maturities and cashflow from operations, which will reduce our reinvestment risk.

However, total operating investment income is expected to be modestly lower primarily due to lower invested assets after the anticipated redeployment of additional capital in 2020.

We ended the year with an estimated MICAT ratio of 170%, well above our desired operating target range of 160% to 165%. As noted in our recent Investor Day, capital efficiency is a key priority, and to this end, we have taken several actions in January, including the following: we expanded our available bank credit facility to include a $200 million dollar 5-year term loan and a $200 million bridge loan in addition to the $300 million revolver credit facility, and we declared a further $200 million special dividend from January 15 to be funded primarily from additional leverage.

After funding the recent special dividend with debt, our leverage ratio should stand at approximately 15%, consistent with our long-run leverage target.

As Stuart noted, the company continues to generate capital in excess of our business requirements, principally from ongoing profitability in the aging of the 2016 and prior books. With our goal of operating with a MICAT ratio closer to 165%, the company expects to redeploy $400 to $500 million organically-generated capital in 2020, over and above the quarterly dividends and the recently declared $200 million special dividend.

We expect capital redeployment, together with increased leverage, to contribute to improved capital efficiency and ROE growth in 2020. With respect to our June 2020 bond maturity of $175 million, we are actively exploring refinancing options in the public debt market with the intent of keeping our leverage around 15%.

In summary, we continue to balance capital strength, efficiency and flexibility and are well positioned on all of these fronts to support the business growth and profitability objectives.

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

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

Thanks, Phil. We view the current economic environment as constructive for our business, with positive fundamentals, including job and income growth and relatively low and stable interest rates. Furthermore, we see a strong pipeline of future first-time homebuyers due to the robust level of immigration being targeted over the next 3 years.

That said, we also acknowledge the ongoing presence of economic uncertainty related to global trade, geopolitical events and the long economic cycle.

In our view, our high-quality, well-diversified insurance portfolio, together with our disciplined risk management and underwriting practices, represent significant risk mitigants, which position us well to manage through variability in the economic performance. We are pleased to enter this new decade with Brookfield Business Partners as our new majority shareholder. As discussed at our recent Investor Day, we believe the Brookfield transaction will be of strategic benefit to our business over the coming years.

Our strategy for 2020 is focused on prudent growth, capital efficiency, disciplined risk management, industry thought leadership and delivering a best in class customer service experience.

Execution on these priorities should help to maintain our top line momentum, high-quality portfolio and drive ROE improvement. Thanks for listening. That concludes our prepared remarks. I will now turn the call back to the operator to commence for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Geoff Kwan with RBC Capital Markets.

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

Just had a question on the credit facility that you have in place. Is the 12-month -- sorry, the 12-month bridge facility strike? Or should we interpret it as being giving you the flexibility to take up the leverage on a short-term basis to then maybe do some returns of capital? And then as you maybe term it out and that's likely to go away? Or is there another reason for that aspect of the credit facility?

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

Jeff, it's Phil. I think the credit facility -- the bridge facility is really gives us additional flexibility. I think our general philosophy is more likely to use the term facility than necessarily the bridge facility. I think we did declare the dividend on January 15, and that will be funded to increased leverage through a draw on the term loan. Thereafter, I think the return of capital will be more organically generated. So we don't anticipate further leverage for return of capital.

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

Okay. And then I know it's still very early days with Brookfield your new owner, but have you had any discussions with some of your larger customers and the potential to maybe get a little bit more business from them?

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

Yes. Jeff, it's Stuart here. I would say, to your point, it is still very early on here. Ultimately, we view Brookfield as a very, very strong counterparty. And I would say that in our early discussions with our lenders, there is certainly acknowledgment of that. So I think we still view this as strategically beneficial to our momentum and our goals of growing our business. But it is definitely very early on in terms of any actual changes in that regard.

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

Okay. And then just the last question I had is, any insights you have as we're slowly heading into the spring housing season as to how it's shaping up?

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

Yes. We're definitely encouraged by the momentum we saw in 2019 and even into the end of 2019. And I would say, by all accounts, given similar conditions in the economy, we expect that to continue on into this year. And as you know, there is definitely some speculation around mortgage rates coming down a little bit as the Bank of Canada yields drops. And I think that will be further supportive for a robust housing market this spring and into this year.

Operator

Your next question comes from Tom Mackinnon (sic) [Tom MacKinnon] with BMO Capital.

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

Tom McKinney here. My question is really on 2 things. Really, how should we be looking at the cost of the debt and the debt facility? The $200 million that's the special that you're funding with that and just for modeling purposes. And then as a follow-up, in terms of organically-generated capital, 2019 was north of $400 million, you're guiding to $400 million to $500 million for 2020. Is this a trend that we should be looking at continuing through 2021? Is something in the $400-ish million range in 2021 seem reasonable, in your opinion?

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

Tom, it's Phil. With respect to the cost of debt, no, I think that given where yields are today, we expect the cost of debt to be somewhere around 3%. So 3% to 3.25% is the likely range for the cost of debt, which we find very attractive. And hence, why we think that, over time, use of the term loan is very beneficial in addition to refinancing our June maturity at this time. With respect to organic capital generation, I would say that as we continue to grow our top line through 2020, the return of capital, the organically-generate capital will decline over time. So we wouldn't expect it necessarily to be in a similar range as it was in 2019, and as we've guided for 2020. So I would suggest it would be lower. I would say, relatively more in the range of $250 million to $350 million would be more appropriate as you look forward.

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

For 2021.

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

For 2021.

Operator

Your next question comes from Paul Holden with CIBC.

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

First, on the increase in delinquencies in Ontario, and I realize that it's a relatively small number. But is there anything to take away from that? Is it maybe a one-off? Is it -- are you seeing some trends that would suggest continued claims pressure in Ontario? Or is this just the normalization story we've been talking about for some time now?

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

Paul, it's really -- you got to figure in some seasonality to that, too. Because I think we've seen such a low pattern of losses over the last couple of years at -- when sometimes it gets about the normal seasonality. But heading into the winter months, into the fourth quarter, it's definitely not unusual to see a pickup in doubts that then kind of subside again into the spring months of the following year. So our fourth quarter Ontario delta, I would not see as something that was trending or part of the normalization. There was just normal seasonality. The normalization, overall is just the general lift you'll see in Ontario and B.C. over time coming off exceptionally low levels in the past 2 years.

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

Next question. Are there any updates you can provide us on the product development or initiatives you highlighted at the Investor Day? I realize it's only 2 months later, but anything to update on -- us on in terms of confidence around being able to launch those programs in 2020?

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

Yes. We're still definitely working towards a 2020 launch. Obviously, at this point, it is in with the regulator, and we are in dialogue with them. There is no clear indication at this point as to when we may hear from an approval point of view. So I think our readiness is for 2020. We're preparing our systems to be able to launch it then. And really, it's a matter of when the regulator comes through with a final decision on that.

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

So a follow-up question for that and obviously, you've had discussions around or with your lending partners. So you must have a good level of comfort that the demand for the product is there. Like how quickly could you turn on the taps once you've got regulatory approval?

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

I would say very quickly. That's part of my point on being ready. I think we want to be able to literally go the next day if we get a regulatory approval. And there is definitely, to your point, a fair degree of interest from our lender partners. And therefore, I think, we could turn that on pretty quick.

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

And is that incorporated into your 2020 guidance? Let's call it, whether it's, I guess, really on the premiums written line for modest growth?

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

No, I would say it's not. I mean, obviously, because it's contingent on a regulatory approval, we can't say for sure which way that will go. What we're talking about in terms of modest growth in our premiums written is really coming out of our core business on the back of a strong housing market and ongoing share pursuit.

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

Okay. That makes sense. And then I would also make the same assumption regarding your organic capital generation targets that you've laid out for 2020. Maybe you can give us a better sense of, is there a difference in the amount of capital that this, let's just call it, non-regulated or new business would require versus your traditional insurance product?

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

At this point, that hasn't been completely determined. We're -- that's part of our discussion with the regulator. But I will say that we have certainly taken the potential launch of that product into account in our capital estimation. So that when we say that $400 million to $500 million form an organic point of view, it does contemplate launch of that product sometime in the year.

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

Got it. Okay. One last quick one for me. Are you able to give a pro forma MICAT ratio following the January special?

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

Paul, I think, generally, as we've noted before, we want to operate closer to our 165% and end the year at 175%. That 5 points is about $125 million of capital. So even with the $200 million, that would still mean that we would expect to be operating well above 165%. And as I noted though, that dividend is being funded with leverage. So that won't necessarily impact the MICAT ratio. But I certainly -- it's our goal to operate closer to the 165% level as we go through the course of the year.

Operator

You next question comes from Graham Ryding with TD securities.

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

Starting with your capital return. So in last year, you're more biased towards special dividends versus buybacks. In 2020, should we expect a similar mix? Or is it possible that you only do special dividends?

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

Graham, I think it's going to be a function of where the stock is trading at. And as we would expect right now, I think we are looking at more special dividend path. That's not to say we're close to the potential for a stock buyback if the conditions were appropriate for that. At this point, for this year, we have a view that we're going to be distributing this capital to the degree that it's excess, sort of 50-50, front half of the year, second half of the year or so. A lot can change in a year, and we certainly are open to both potential means of returning capital.

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

Okay. And your description of your outlook for modest premiums written growth in 2020. Just contrasting that with you, you exited Q4 '19 with 17% year-over-year growth, I think, for your premiums written. So do you see some upside potentially in that guidance given the momentum currently with your premiums written growth?

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

There is definitely some upside potential if the market is more robust than what we're anticipating. There are certainly a number of potential headwinds out there, as we highlighted in our prepared comments, from an economic point of view. So I think when we take a stance on a sort of fairly conservative outlook from a base case point of view, it translates into that modest growth. But I would say there's no question. The market could do better, and we could do better from a market share point of view. So there is absolutely upside potential to that.

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

Got it. And my last question, if I could. Just the increase in your average reserve per delinquency. Is that a reflection of the actual claims that you're seeing and paying out in Alberta and the Prairies. Is that what's sort of pushing that average reserve higher?

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

Yes. Graham, that is a factor. But I think the other factor to remember is seasonality or incurred but not reported reserves increase in the fourth quarter, while there's no specific delinquency associated with it. So therefore, it goes in the denominator, and therefore, it naturally -- sorry, it goes in the numerator and without the denominator changes. So it has a natural seasonal impact on that average reserve for delinquencies. So it's really a combination of a higher proportion of claims in Alberta and the Prairies, and also just the seasonal impact of the incurred but not reported reserve.

But the one thing I would add to that of note is, when we continue to see favorable reserve development, it gives us good comfort that our reserving is adequate, and we don't anticipate any adverse development of these reserves. If anything, there may be a degree of potential for favorable development as we move through the course of 2020.

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

What was the favorable reserves in the quarter?

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

In the quarter, it was just about $1 million. But for the full year, it was $19 million over the 2018 reserves.

Operator

Our next question comes from Jaeme Gloyn with National Bank Financial.

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

First question, just around the reserves -- or the average reserve per delinquency. How much would the delta be between the average Alberta property versus like an Ontario property, for example, just given the rapid house price appreciation in the Ontario market over the last several years? I would think that delinquency is creeping up in Ontario and Pacific would also have similar -- similarly high average reserves. Can you just comment on that a little bit?

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

Certainly. The average reserve for delinquency in Alberta is going to be just around $100,000, while so few of the Ontario delinquency is actually results in the claim. The average reserve in Ontario is pretty de minimis, let's say, $20,000. So quite a stark difference. The thing to remember is, is the average reserve is, obviously, skewed to where the largest number of delinquencies come from, and that, today, would be the Alberta, Prairies and Atlantic.

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

Okay. In terms of the growth in portfolio insurance, the rate in this quarter, is that a representative rate of what we should expect going forward? It's sort of been bouncing around that sort of 30 to 50 basis points level. But what do you expect looking ahead in terms of how that should evolve?

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

I think it will stay within that range. What we found is that, with the higher levels of capital, with the implementation of the new capital framework a couple of years back, the sweet spot for lenders, for portfolio insurance tend to be loans with loan to values 70% or lower. 75% and 80% loan to values carry a much higher price, which makes it very difficult with the current mortgage spread. So we don't see that changing necessarily going forward. So we would expect the average premium rate to stay in that band of 30 to 50. Some lenders have a preference for 65 and under, that will take them closer to the bottom end. Some lenders have an appetite for 70, and limited appetite for 75 and 80 LTVs.

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

Okay. In terms of the premiums growth that we're getting this quarter, and given the fact that we're seeing some lower interest rates in the market, the story from last year that we talked about was around lapse. Where are those lapse rates trending today? And I guess, combine that comment with the growth in premiums that we're seeing this quarter or the last several quarters, and how that could impact premium recognition timing?

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

Okay. I think lapse rates really impact the level of capital required, less so the earnings pattern. The earnings pattern is more, how do we expect losses to emerge. And what typically happens is the borrowers that are repaying their mortgage because they sold their property, we're not the borrower that were most likely to go to claim anyway. So we don't really see a direct correlation between those 2 in the short term. What I would say is that the lapse rates, as it impacts capital, we've seen a return to the levels that we saw in the second half of 2018. The first half of 2019, lapse rates dropped. And on further analysis, it seems that lapse rates are very tied to housing activity. If there is a higher level of housing activity because home prices are rising, because of strong unemployment, mortgage rates are attractive, more people that had insured mortgages may have sold their properties to trade up. And on the trade up, they may not necessarily have needed mortgage insurance. So we've seen a rebound of those lapse rates, and we're cautiously optimistic going into 2020 as we continue to see good demand for housing that our lapse rates will begin to normalize to the levels that we saw in, I would say, in the second half of 2018.

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

Okay. In terms of the expense ratio ticking up a little bit this quarter on what seemed to be somewhat driven by higher volumes, how much would be the higher volumes this quarter? That 17% premium growth drive expenses higher? I guess, maybe another way to ask it, how much of a premiums written would hit in the current quarter as opposed to being deferred?

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

Most of the impact to higher volumes gets deferred, because most of the increased cost comes in the form of either appraisals or credit bureaus or premium taxes we pay the provincial government. So I wouldn't say that higher volume has impacted the expense ratio. What has impacted the expense ratio has certainly been some onetime expenses. And also with a strong share price performance, share-based compensation would have impacted that. But volume-related, not so much.

Operator

We'll take a follow-up question from Tom Mackinnon with BMO Capital.

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

Yes. One of the questions was answered. But maybe just as a follow-up to that, the modest tick up in the expense ratio here. You talked about onetime items and share-based comp. Is your share-based comp kind of more of a seasonal Q4 thing, Phil? Or what was the onetime expense item that you referred to?

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

Yes. Well, the share-based comp really is based on the uptick of the stock price. And therefore, with the rise we've seen in the MIC stock price through the fourth quarter, that would certainly mean that any options or RSUs have a much higher value that flow through expenses in that quarter. As we did the transaction, we have there also some due diligence expenses from our board's perspective. So we did have some onetime consulting expenses that flowed through the fourth quarter.

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

Okay. So the share-based comp is ongoing throughout the year, but ticked up just as a result of the stock price in the quarter? And then in addition, you had some onetime consulting fees?

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

Yes.

Operator

(Operator Instructions) We'll take our next question from Phil Hardie with Scotiabank.

Phil Hardie ***Scotiabank Global Banking and Markets, Research Division - Director, Diversified Financials and Analyst***

Most of my questions have been answered. I just want to change gears briefly on governance. Obviously, with the Brookfield, you've got a recomposition of the board. I wonder if you can give us just a quick reminder in terms of what the balance is now between independent directors and not, along with a quick kind of walk-through of some of the expertise and some of the new specialties, which have joined the board?

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

Yes. Phil, I mean, I would stop by saying there really hasn't been a change in terms of that balance. As a public company board, you've still got 4 independent directors, myself and 4 Brookfield and/or co-investor representatives. And then that the insurance company board is the same plus the additional 2 independent directors. So that hasn't really changed. As I say, as far as skills matrix and additional skills are concerned, certainly, the Brookfield representative come on have -- are coming with some experience in either insurance or the residential housing space. And I would say that has been intentional to try and maintain that sort of skill set on our board. So at this point, not a lot of change other than just switching out the Genworth representatives. And we feel pretty good about it, the board.

Great. Well, thank you very much, everybody. That concludes our call for today. Thank you for joining us, and enjoy the rest of your day.

Operator

That does conclude today's conference. We thank you for your participation.