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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Genworth MI Canada Inc. 2020 First Quarter Earnings Conference Call. (Operator Instructions) I would now 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 First Quarter 2020 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, 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.

Our presentation and discussion today contain a disclaimer on forward-looking statements and non-IFRS statements. 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 prepared remarks. Stuart?

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

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

This morning I'm going to touch on some key financial highlights from our performance during the quarter before handing it to Phil for a deeper look at our results. I will conclude with our assessment of the current environment and the factors shaping our revised outlook for the remainder of the year.

Clearly the environment has changed significantly since the start of the year in the face of the COVID-19 pandemic and resulting economic shutdown. By mid-March our business had successfully transitioned to a remote working environment in order to protect the well-being of our employees and continues to be fully operational as we serve our customers during this challenging time.

I want to take a moment to recognize and thank all the frontline workers who continue to put themselves at risk while helping so many during this time of need. I also want to commend the government and federal regulators for their efforts in helping to ease the impact this pandemic is having on Canadians and the Canadian economy.

Turning to the quarter, we were pleased with our first quarter results, including positive top line momentum, a 14% loss ratio and 13% operating return on equity. For the quarter we delivered net operating income of $117 million, down 1% over the prior year period and up 4% over the prior quarter. This resulted in fully diluted operating earnings per share of $1.35, flat to the prior year period and up 4% over the prior quarter.

At 14%, our loss ratio came in 1 point lower than the same period in the prior year and 6 points lower than the prior quarter, primarily due to decreases in new delinquencies, net of cures, in Alberta, Ontario and Quebec.

Net premiums written totaled $114 million, up 8% over the prior year period, driven by strong growth in transactional insurance volume, which was up 10% on a year-over-year basis. This growth was largely due to the positive momentum we saw and the number of high-ratio mortgage transactions during the prior year, including the last quarter of 2019.

We ended the quarter with an estimated MICAT ratio of 172%, 7 points above the upper end of our targeted operating range. Redeployment of excess capital has been an active part of our strategy over the past 5 quarters, including the $400 million in special dividends paid during the first quarter of this year. That said, given the level of uncertainty in the current economic environment, we do not anticipate any further capital redeployment for the remainder of this year outside of our quarterly ordinary dividend.

We ended the quarter with a fully diluted book value per share of $39.61, reflecting ongoing profitability offset by the special and ordinary dividends paid during the quarter.

With that, I'll turn it over to Phil for a deeper look at our first quarter financial results, investments and capital position, before addressing the current economic environment and its potential impact on our business in 2020.

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

Thanks, Stuart, and good morning.

The company ended the first quarter with strong profitability and, more importantly, a strong balance sheet and capital position. Net operating income was $117 million, up by $2 million from the fourth quarter, primarily due to lower losses and claims.

Premiums earned were flat sequentially at $171 million. As a reminder, our single upfront premium model has resulted in $2 billion of unearned premium reserves, which in turn provides good visibility and stability going forward. Accordingly, we expect premiums earned to be modestly lower for the full year as a result of the lower expected premiums written in 2020.

As Stuart noted, the first quarter loss ratio was only 14% on loss on claims of $25 million. Losses were lower sequentially by $10 million, reflecting the stability and health in the labor markets in most parts of the country prior to the onset of COVID-19. The number of new delinquencies net of cures decreased by 101 sequentially and the average reserve per delinquency was relatively flat at $79,000. The decline in net new delinquencies was led by Alberta, Ontario and Quebec.

In total, the number of outstanding delinquencies of 1,754 and the delinquency rate of 20 basis points were relatively flat year over year. While we expect losses and claims to be pressured starting in the second quarter, strong portfolio quality, coupled with payment deferrals and our active loss mitigation strategies, are positive factors.

With respect to payment deferrals, lenders and mortgage insurers have agreed to allow borrowers impacted by COVID-19 to defer their mortgage payments for up to 6 months. Payment deferrals will help borrowers bridge income interruptions and should be an effective loss mitigation strategy. However, the company expects that a subset of these deferrals will end up in default after the deferral period ends.

As a result, going forward the company will include a provision in its incurred but not reported, or IBNR reserve, for its estimate of losses from defaults that would have otherwise occurred had payment deferrals not been in place. The IBNR reserve will be estimated using the company's internal loss forecasting model and several forward-looking economic scenarios for regional unemployment rates and home prices. Each of the base case upside and downside scenarios will be assigned a probability rate, with the base scenario receiving the highest rate.

Expenses in the quarter totaled $37 million, inclusive of a $3 million expense related to share-based compensation. As a result of the market correction in March, the MIC share price fell below the grant price for certain option grants, leading to an unrealized derivative loss. While the resulting expense ratio of 22% was above our targeted range of 18% to 20%, we expect to be around the high end of the range for the full year, including one-time transition costs related to our IT infrastructure and financial systems.

We earned $54 million of operating investment income, which was modestly lower sequentially by approximately $1 million due to the lower interest rate environment and a decrease in the average invested assets.

In total we generated an operating return on equity of 13% and a fully diluted operating EPS of $1.35. Our diluted book value per share now stands at $39.61 after the payment of special dividends of $4.64 during the quarter.

Turning to investments, our $6.1 billion investment portfolio continues to be of a high credit quality and provides strong liquidity given its relatively short duration of approximately 3.5 years. The current pretax equivalent book yield is 3.2%. Importantly, the portfolio adds a measure of visibility and stability to our financial results.

With the financial market volatility in March, government bond rates declined sharply and credit spreads widened significantly. As a result, unrealized losses in the investment portfolio and derivatives stood at $118 million, as declines in the market value of preferred shares and corporate bonds were partially offset by gains in government bonds. In April, financial markets improved and the mark to market on the investment portfolio and derivatives had significantly improved.

We expect that the lower interest rate environment will persist for the remainder of 2020 and new money rates and realized income from our interest rate hedging program will be lower than originally expected for the remainder of the year. Overall, we now expect operating investment income to be moderately lower for the full year compared to 2019.

With respect to capital, we ended the quarter with an estimated MICAT ratio of 172%, supported by the runoff of the capital requirements resulting from the aging of the 2018 and prior books. Overall the company is well capitalized, with its MICAT ratio above its targeted operating range of 160% to 165% and a modest debt-to-total-capital ratio of 15%, consistent with our leverage target.

In addition, our $300 million undrawn credit facility provides further capital flexibility. As well, the company has strong liquidity, having extended our debt maturity schedule by paying off the June 2020 maturity earlier this year, through the issuance of $300 million of 7-year debt at an attractive interest rate of 2.95%. The next debt maturity of $260 million is not until 2024.

To date in 2020 we have redeployed approximately $400 million of capital through special dividends. That said, we do not anticipate any further capital redeployment over and above the quarterly ordinary dividends for the remainder of this year. This reflects the economic uncertainty, regulatory considerations and the emergence of portfolio insurance opportunities as banks and other lenders look to access the government funding programs for insured mortgages.

In summary, the company is well positioned financially, with a high quality investment portfolio and a strong capital and liquidity position.

I'll now turn the call back to Stuart to discuss the impact of the emerging economic conditions. Stuart?

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

Thanks, Phil.

Turning to the current environment, it goes without saying that these are truly unprecedented times both in terms of the scale and impact of the COVID-19 pandemic, as well as the magnitude of support from central banks, governments and regulators.

The federal government has implemented some important programs to help Canadians whose income has been or are at risk of being affected by the COVID-19 pandemic. These programs include the Canada Emergency Wage Subsidy, which provides an incentive for eligible employers to retain employees with the help of a federal wage subsidy, as well as the Canada Emergency Response Benefit, which will pay $2,000 per month for up to 4 months to Canadians who have lost the majority of their income.

At the provincial level, measures have been implemented that provide direct cash payments to parents, deferral of taxes, fees and payments on loans owed to the government.

Within the mortgage industry, lenders and mortgage insurers have agreed to allow borrowers impacted by COVID-19 to defer their mortgage payments for up to 6 months.

Collectively, these measures are aimed at helping to bridge Canadians impacted by the current economic shutdown to when the economy begins to recover, with a goal of reducing the severity of the impact on people and employment. These programs have a direct impact on our business in terms of the level and duration of unemployment and therefore the ability of borrowers to make their mortgage payments.

In additions to measures aimed at income support, the federal government, the Bank of Canada and OSFI have taken several steps to provide lenders with more liquidity options. From a mortgage insurer perspective, the primary changes have been the reintroduction of an insured mortgage purchase program under which the government may buy up to $150 billion of NHA mortgage-backed securities, as well as their inclusion as eligible collateral for certain Bank of Canada programs. As these programs require insured mortgages, we have seen an increase in demand for portfolio insurance. To maximize the available pool of mortgages from this program, the government has also expanded the product parameters for portfolio insurance to include refinances and mortgages with an amortization up to 30 years, provided they were originated prior to March 20, 2020. This exception will be in place till the end of this year.

Furthermore, the Department of Finance has announced that it has suspended the implementation of the proposed changes to the mortgage rate stress test. OSFI has announced that it too will be suspending a number of consultations, including the amended stress test for uninsured mortgages in an effort to allow lenders and insurance companies to respond to COVID-19.

Notwithstanding all of these measures, there is still a tremendous amount of uncertainty as to how the remainder of this year and next will play out in terms of the health crisis and its impact on the economy. Our strategy is focused on a dynamic proactive response to the current environment, while planning for a variety of potential future outcomes. This includes the development of plausible economic scenarios and stress testing our business under those scenarios to develop appropriate responses in terms of capital flexibility, loss mitigation and expense management. We take a lot of comfort in the strength of our balance sheet and the quality of our insurance inforce. This, together with our disciplined risk management and proven loss mitigation strategies, serve as important mitigants against economic pressure during times like these.

From an immediate tactical perspective, we enacted our business continuity plan earlier in March, with all employees working remotely. Our customers remain complimentary of our service delivery and we continue to make progress on a number of important initiatives despite our remote working environment. Given the wide scale adoption of the mortgage payment deferral program, we are cross-training some of our underwriters to work in loss mitigation, as we do expect the volume of delinquencies, and therefore workout opportunities, to increase later in the year as the mortgage payment deferrals come to an end.

Based on preliminary reporting by our lenders, we estimate that approximately 13% of our outstanding insured mortgages as of March 31 have taken payment deferrals. That said, approximately 62% of these mortgages have an estimated current effective loan-to-value less than 80%. Based on all the income-bridging programs in place, we expect the vast majority of borrowers will return to making regular mortgage payments by the end of the deferral period.

We have also implemented a number of underwriting changes to reflect the increased level of risk due to the COVID-19 and low oil price situation. Overall, these changes are aimed at reducing our highest risk loans, which tend to underperform in an economic downturn. At the same time, we've kept the changes as focused as possible to avoid any unnecessary impact on our customers.

When it comes to planning for future scenarios, it is clear there are a wider range of potential outcomes for the company in 2020, given the rapidly evolving nature and uncertainty related to the COVID-19 pandemic. Therefore, as noted earlier, we have developed a number of plausible economic scenarios and, for illustration purposes, defined a base and a downside case reflecting a range of assumptions from macroeconomic factors that may impact our business.

The critical driver in each of these 2 scenarios is the path of the COVID-19 pandemic and the resulting duration of social distancing measures and nonessential business shutdown. In our base scenario we assume that new cases peak in the second quarter, followed by a gradual easing of business closures into the third quarter, allowing for a degree of economic recovery by the end of the year. This helps to mitigate some of the pressure on unemployment, which would end the year in the 8% to 10% range. Under this scenario, housing activity is expected to be significantly reduced during the second quarter, as weak consumer confidence and social distancing rules impact consumer behavior. We would expect to see a pickup in activity in the second half of the year as the economic recovery gets under way. House prices do not change materially in our base scenario, as listings respond largely in sync with demand.

Our downside scenario assumes a continuation of the health crisis well into the second half of the year, with ongoing business shutdowns through the end of 2020. Under this scenario unemployment reaches a much higher peak and remains in the 10% to 15% range at the end of the year. The impact on housing markets is more pronounced, with a significant reduction in activity through the second half of the year and more pressure on house prices as supply outpaces demand.

In both scenarios unemployment rates in oil-producing regions are expected to remain more elevated due to ongoing pressure on oil prices. Based on the results of our loss forecasting models in each of these 2 scenarios, we are updating our full year estimated loss ratio range from 15% to 25% to 25% to 40% for 2020. We will provide updated estimates as more data becomes available during the course of the next few quarters.

New business applications have declined, as one would expect in this environment. However, we have stabilized at approximately 55% of the prior year level for now, which is encouraging as clearly there are people who still feel confident about buying a home under these challenging circumstances. We believe market activity will improve once the shutdown begins to ease and economies begin to recover, subject to the timing and pace of recovery, as noted in our base and downsize scenarios. In either case, we expect the overall high ratio mortgage market to be smaller than the prior year, which will result in lower transactional insurance written premiums for 2020. This will be partially offset by a higher volume of portfolio insurance written premiums due to increased demand from lenders in response to the federal government liquidity and funding programs.

While our overall strategic priorities have not changed, some of them will be deferred in order to accommodate the more immediate need to focus on the current environment, including ensuring our employees remain safe; our business continues to have sufficient capital and liquidity and our business continuity plan remains operational and effective; working with our customers, competitors and government to find the best solutions to help mitigate the impact of this pandemic on borrowers, our industry and the housing market, including the launch of the mortgage payment deferral program; frequent and clear communication to our employees, our customers, our shareholders, our board of directors and related government stakeholders.

Strategic initiatives that have not been deferred include the transition of our IT and accounting infrastructure from the U.S. to Canada, as well as initiatives aimed at driving improved risk selection, customer experience and productivity, such as our Smarter MI underwriting strategy.

The COVID-19 pandemic and economic environment continues to evolve at a record pace. We are, however, encouraged by the dialogue regarding plans for reopening of nonessential businesses across the country in line with our base case scenario. We continue to monitor the key drivers for our business and will provide updates on our assessment and outlook on a regular basis. In summary, we believe the company is well positioned to manage through this cycle, given the capabilities and experience of our seasoned employee base, our disciplined risk management and proven loss mitigation strategies, together with our balance sheet strength and quality of insurance in force.

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

Thank you. (Operator Instructions) We will now take your first question from Geoffrey Dunn of Dowling & Partners.

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

Obviously there's a number of near-term challenges ahead. But, Stuart, I'm curious more on your mid- to longer-term view as to what this pandemic experience might influence and how Genworth MI Canada does business, how its operations work. It seems that this could be a catalyst for a number of changes, digitization, et cetera, on a number of fronts. So I'm curious what you think the positive side of this experience could be on the back side of the fence.

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

I think absolutely we're, like many companies now, learning a lot about what the art of the possible is in terms of digitization and more, frankly more remote working and having been working entirely remotely as a company for the last 6 weeks. I would say we're very comfortable and very confident in our ability to continue to deliver on all our commitments to our customers in this form.

And so I think longer term, to your question, there's absolutely going to be questions around how we now continue to operate and, frankly, how we reintegrate into an actual office environment in the future. I can tell you I don't believe it will look the same as it is today or was before we came into this pandemic. There is no doubt really a high degree of digitization in our business. As you know, we do underwrite all our files in a digital realm and our lenders have seen some accelerated adoption of things like e-signatures and digital closings.

So I think the industry as a whole has seen some benefits from this crisis that will persist into the future, making it much easier to conduct our business. You think about appraisers. Even appraisers have continued to do their appraisals, but in a much more digitized way. They're not actually visiting homes; they're relying on photo submitted by the homeowners, digitally printed to -- and geo printed to ensure they are, in fact, from that location. And the appraisers can do their job that way. And so I think there will be efficiencies, cost savings and effectively our business should benefit from that in the long term.

Ultimately, as you pointed out and as is obvious, the real issue for us is going to be the economy and how that unfolds and what that means to our business from a loss forecasting and a loss ratio point of view, along with the market recovery and how much written premium there will be available in the market going forward.

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

Okay. And then, I understand -- first of all, your base and distressed outlooks were very helpful and I understand that the timing of the COVID and the business closures are the primary driver. But the added complication right now is oil. So could you talk a little bit more about how you're thinking about, well, maybe COVID has a quicker turnaround this year in terms of the openings, but you're still dealing with the depressed oil prices. So how are you thinking about that economic impact in the regions (inaudible) such as Alberta?

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

Yes, you're absolutely right. I think we already acknowledged that Alberta was in a tough spot coming into this crisis. And as you know from prior discussions, we certainly have been seeing a disproportionate amount of our claims coming from that part of the country and this is not going to help. Obviously, our view is that as the COVID crisis wanes and as the economic recovery gets underway, it's a longer path for Albert and the oil pressure that they're seeing.

I would ask Craig Sweeney, who's our Chief Risk Officer, to just comment a bit more on how we're thinking about Alberta and the risk that it represents right now.

Craig Sweeney ***Genworth MI Canada Inc. - Senior VP & Chief Risk Officer***

So, yes, it's certainly in our base scenario. We have more negative assumptions for unemployment and house price depreciation for the oil regions, and in particular for Alberta. If you look at the consensus around unemployment from the Big 6 banks here, Alberta could be averaging anywhere from between 10% and 15% unemployment in 2020 and that certainly aligns with our base scenario. And definitely helps prices. Could come off anywhere from 3% to 5% or 6% this year.

To your point, and this is a key differentiator, we do not expect a fast turnaround or recovery for Alberta. So, again, in our base scenario our unemployment does stay elevated above what 2019 levels are well into 2021. And we do expect potentially some modest house price depreciation in the outer years as well. So certainly it's a much slower recovery.

We do take some comfort from the recovery in WTI just in the last couple weeks and certainly OPEC, with their forecast for WTI to be $40 in the third quarter. But we believe that -- and, again, in our base scenario -- that oil won't recover to $40 to $50 again until well into 2021.

And so in response we've taken some underwriting actions in the province and really focused on areas that are more sensitive to the oil prices within the region, as well as sectors that are more sensitive to the impact from COVID-19. And so this will certainly help from a portfolio quality that we originate in Alberta in 2020, which should help it sort of weather the storm of economic uncertainty coming. But to Stuart's point, we do expect Alberta to over-contribute to losses this year and to next year. And I think we look back over the last couple of years they've been anywhere from 40% to 60% of our losses and I think the expectation would be for that trend to continue this year and next, if not maybe even go a little bit higher.

Operator

We'll now take our next question from Jaeme Gloyn from National Bank Financial.

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

My first question, I just wanted to get a better sense as to how the losses and the loss ratio will perform and the underlying drivers of those losses. By the sounds of it, and correct me if I'm wrong, we shouldn't expect to see a material increase in delinquency rates in, let's say, Q2 and Q3, given the payment deferrals. And as a result, I guess the increase in losses through IBNR is going to be driven by higher reserves or average reserves per delinquency in those 2 quarters. Is that the right way to think about how these financial statements are going to flow and look in Q2 and Q3?

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

Yes, absolutely. I mean, there is really not an expectation of seeing much on the new delinquency front, given the mortgage deferral program. But, as you know, our business is really built on reserving for incurred but not reported as well and meaning that where we think an actual loss event has occurred, someone has missed a payment, we're trying to estimate what is the best estimate of losses from those populational files.

So we are going to be implementing some form of reserving for that. I'm going to turn it over to Phil to give you a little more detail on that.

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

The way we think about it, Jaeme, is that while reported delinquencies are not going to be rising as a result of payment deferrals, we think it's important to reflect the borrowers that are taking payment deferrals that may ultimately go delinquent post the deferral period end. As a result of that, we're going to take a modeled approach and we are going to essentially estimate what proportion of the borrowers that will ultimately go into delinquency post the deferral period and we'll build the incurred-but-not-recorded reserves so that at such time as when those delinquencies do happen they're already reserved appropriately. And we'll be essentially estimating on a quarterly basis what delinquencies have been avoided in that quarter that will ultimately happen in the post-deferral period.

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

Okay. And so if I'm looking at the breakdown of loss reserves, we'll see that increase in our IBNR, of course. Case reserves fairly steady. What are you thinking around the provision for at-risk deviation? Should we see a large uptick there as well?

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

Well, I think it would be a proportional increase to the same proportion that incurred-but- not-reported increases. I think our reserving practices have proven to be fairly accurate, so I don't necessarily see a tremendous change in the approach to at-risk deviation. But I think just given the fact that incurred-but-not-reported is rising and as Stuart noted the overall expected loss ratios rising, one would expect a proportional increase in the at-risk deviation provision.

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

Okay. Great. And if you take this out to 2021-- I know this is starting to stretch a little bit on the guidance or the outlook. But if we're taking these reserves today, in 2020, for IBNR, would that also suggest that 2021 we're going to be -- we admit perhaps experiencing more stable or even a potential improvement in the loss ratio in that base case scenario, or even in your downside scenario?

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

I think, Jaeme, it really depends on the economic conditions and the unemployment situation. I mean, clearly there are some borrowers that have taken payment deferrals, but there could be other factors that play into 2021, which is the overall economic environment as it relates to both home prices and unemployment. So there could be new delinquencies that occur in 2021 that are not necessarily part of the payment deferral population, borrowers that may be current today, but because of situations in 2021. So I think it's premature for us to comment on the potential loss ratio. But I think it will be driven by the economic fundamentals in 2021.

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

Okay. Last one for me then, just around the conversation of the MICAT ratio and capital deployment. MICAT currently north of 170%. The target range is 160%, 165%. Is that target range still in play in this current environment? Or should we expect to see MICAT remain well above that target range? And then the follow-on to that is obviously the guidance to remove any further special dividends and capital return to shareholders. Is there a potential to see that come back in the second half under, let's say, the base case scenario and a quicker recovery?

Stuart Levings: Well, Jaeme, I would say to you that the guidance around our desired operating range is still there, 160% to 165% is definitely the case. However, what I would say to you is that as we noted in our scripts, we are certainly seeing higher demand for portfolio insurance right now. And so, while we are certainly trying to remain prudent as well in terms of capital strength, we're also trying to allocate an appropriate amount of our capital to serve our lenders in this need.

So we will be looking at maintaining our MICAT in that 160% to 165%, possibly a bit more for that, but you wouldn't expect to see a build materially above 170%, because we are deploying more capital to portfolio insurance. And given that that demand is still potentially unexplored, i.e., there is some risk being dispersed but there could be more through the rest of the year, it would be premature to conclude that there would be excess capital available later in this year for any redeployment, which is why we said we would not anticipate any further redeployment this year.

Clearly portfolio insurance is an opportunity for us to help offset some of the reduction in the transactional insurance volume. And as you know from past discussions, we get an opportunity to pick the portfolio that we'd like to insure so we can ensure it's within our risk appetite, et cetera. So this is something we want to take advantage of and in order to deploy capital towards top line growth and just maintaining as much of our premium base as possible.

Operator

We move on to your next question. We will take Graham Ryding from T D Securities.

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

Can I follow up on that comment there, Stuart? Are you comfortable that there is enough demand out there for portfolio insurance to -- can you write as much as you want to sort of manage your capital ratio and try to offset the lower transactional market? What if there's not sufficient demand on the portfolio side?

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

Yes, Graham, I can tell you that so far we've seen demand in excess of our appetite. We're not able to fill all the demand at this point. The latter part of the year may see more demand. Clearly there was an initial reaction to some of the government's funding and liquidity programs which drove the initial round of demand. I think we may see some of that again in the second half of the year, but it remains to be seen.

So clearly at this point we're taking advantage of the opportunity, as I said, to write some high quality portfolio insurance. It will not be enough to fully offset the reduction in the transactional insurance volumes, but it certainly helps to partially offset it.

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

Is that just a reflection of portfolio -- it carries sort of a higher amount of -- it consumes a higher amount of capital relative to the premiums written that it generates?

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

Yes, it does have, as you know, a fairly heavy capital allocation. And at the same time the premium rate's obviously much lower than a transactional written premium. So it is going to help, but it will not fully cover the loss or reduction in transactional insurance.

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

Got it. And then just on your loss ratio range, 25% to 40%, the commentary in the MD&A sound like you're leaning more heavily towards your base case outlook, which is 25%, as opposed to the downside scenario. Is that a fair assessment or at this point are you trying to equally balance the potential for that full range?

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

You know, first of all, we basically put those 2 scenarios out to act as bookends of our views right now. And there's certainly a continuum between the base and the downside. And just because we're maybe heading towards a base case scenario doesn't mean the loss ratio is absolutely 25%. It depends on the degree of base scenario. And of course, as you turn more towards the downside it could creep up to eventually as high as maybe 40%.

But I would say given what we're seeing in the market right now, given the discussions around reopening of nonessential businesses, I would say we're definitely of the view that we're heading towards a base case scenario. It just depends on to what extent it's a base case. There could be a best case scenario or there could be some more of a blend between the base and the downside. So at this point, early on of course. But I would say we are cautiously optimistic that it is more towards the base case than the downside.

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

Got it. And what about the regular dividend? 40% loss ratio, if that does prove to be the case is the regular dividend safe? Or how do you think about that?

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

Yes. In our view, our regular dividend remains safe, well beyond our downside scenario. And at this point that's why we were very explicit on our intent to maintain that.

Operator

We will take the next question from Tom MacKinnon from BMO Capital.

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

Question about the -- thanks for the guide with respect to the net premiums earned for the remainder of 2020. I'm just wondering what sort of net premiums written that might imply, given the fact that you're not advocating any change in the premium recognition curve. So that's my first question.

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

So, Tom, as far as net premiums written are concerned, I mean, obviously we're saying it will be lower than what we had originally anticipated for this year and certainly lower than 2019. The extent to which it is lower at this point remains to be seen. And, again, it will really follow whichever scenario we end up going down.

The premiums earned, as you know, really is somewhat stable in that it reflects the last 5 years of business. So at this point we're able to give a bit more comfort around that because whatever we write this year has somewhat limited impact on the amount of earned premium. And clearly we're not expecting to see a 50% reduction in the amount of premiums written this year. We indicated that we think market activity could be 15% or 25% lower in our base case scenario. And I think if we see something like that, with some partial offset from portfolio insurance, you get a sense of where we think premiums might be for this year. And that could get a little worse if you head down towards the downside scenario.

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

Well, I suspect that net premium earned guide for the remainder of 2020 seems to be about 10% lower. And given the fact that most of the stuff relates to prior periods, I'm just wondering -- and if I took down net premiums written 15% to 25% for the remainder of 2020, I'm sure we wouldn't have a 10% reduction in the net premium earned. So that's kind of where I'm coming from. Do you follow me?

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

Yes. Let me turn it over to Phil. He's got some additional comments on this.

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

Tom, we did note in our MD&A that, with the new base scenario and potential downside scenario there is the potential that the loss emergence pattern may be prolonged. And as a result of that, that could mean that we will be updating our loss or premiums earning curve. Hence the commentary around premiums earned being potentially moderately lower because there is the potential that the loss emergence pattern on the last 5 books of business could be prolonged as a result of the COVID-19 economic scenarios.

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

Okay. That's helpful then. So sounds like it's really -- the best thing to do is then adjust the recognition curve in order to come into line with your guide for the net premium earned. Is that a safe assumption to make?

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

I think that's a reasonable assumption in light of the fact that obviously with the higher unemployment and potentially softer home prices, that could mean that the loss emergence pattern on the last 3 to 4 books of business is prolonged.

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

Okay. That's great. The second point is with respect to the payment deferrals, it doesn't seem like there's any impact on the MICAT ratio, at least in the near term. But these things become delinquent after 6 months. Then does it hit the MICAT ratio?

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

Tom, it's Phil.

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

Or the MICAT ratio, I should say.

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

Tom, it won't necessarily have a direct impact. I mean, its most direct impact is through the loss ratio. Because we don't necessarily increase capital for delinquencies. We're already holding capital as if delinquencies will occur in a much worse situation than we are anticipating. So the most immediate impact on the MICAT ratio will be through operating income and equity. So we don't anticipate that it will have any significant impact on the MICAT ratio.

Operator

(Operator Instructions) We will now take our next question from Jaeme Gloyn.

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

I wanted to follow up actually, given the market turbulence on the outlook for what was described as growth initiatives or potential growth initiatives at the Investor Day. Can you talk about where you are on -- seeing how private mortgage insurance -- is that something that was shelved for now? And any other initiatives that were in place and spoken about at the Investor Day.

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

Jaeme, thanks for that. The private mortgage insurance opportunity for us is on hold as the review that was underway with OSFI has been put on hold, as they have a number of other initiatives, to allow ourselves and other regulated entities to focus on COVID-19. So for now we have shelved that. We are still, of course, very interested in pursuing that and as soon as we can get back to some version of normal and allow -- or re-engage with the regulator on it, we will hope to see that come to fruition.

And as far as your related question, like I said in my comments, we're still very active in terms of some of the strategic initiatives that we had underway in terms of improving or revising our underwriting systems, allowing for better risk selection with an ultimate goal of also improving the customer experience, that work is underway and, in fact, it's somewhat an opportune time to actually be focused on that because we are seeing less volume so there are more of our resources available to focus on those kinds of projects. And obviously we are also very actively involved in moving our IT infrastructure from the U.S. up to Canada. That continues and is a very important focus for us.

Operator

Moving on to our next question, from Graham Ryding from TD Securities.

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

I just want to follow up on the payment deferrals. I think you said 13% at the end of Q1. Has there been any change to that number through April? And what is the mix of that like? The mortgage market in Canada is fairly balanced between the insured and the uninsured space. Are you seeing more weighting and default to sort of one side or the other?

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

There was no change to that number in that we only just recently got that report. It is a preliminary report from lenders, reflecting the position as at March. Now we will be expecting more comprehensive reporting from lenders on the 15th of every month going forward and that will certainly help us to get a better level of analysis on the deferrals.

I will say that, yes, there was no doubt some overweighting in the deferral population to our better, as you would probably expect. But beyond that it fairly represented the allocation across the country.

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

Great. And fairly consistent between whether it's uninsured or insured mortgages that are being deferred? Is that fair?

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

Well, we only got the reporting on insured, of course. But I think it would be a fairly safe assumption that because of the scale of the take-up, it would have been a fairly similar proportional allocation across insured and uninsured, yes.

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

Okay. And what is the impact on your overall loan to value if you assume that 13% of your book is deferred for 6 months?

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

I'd say it's a pretty minimal impact. I mean, you're talking about the lack of principal paydown and then a little bit of additional interest accrual for that period of time. I don't expect it will make a big difference in our overall loan to value. The bigger driver will, of course, come from where house prices go.

Operator

And we'll take our next question from Geoff Kwan from RBC Capital Markets.

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

Just wondering how the dynamic, if it's changed with respect to the homeowner assistance program, if it's operating different than what you would have kind of (inaudible) times. But also, too, are you getting access to borrowers that are on deferred payments that wouldn't have been on your radar screen prior to COVID-19?

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

Geoff, yes. I mean, really what this is a large-scale implementation of one of our let's call it tried and tested home ownership assistance programs. So deferring payments through a period of temporary financial difficulty is very much something we've done in the past and successfully so. I would say that is part of the reason why we have a degree of confidence around the number of borrowers that will resume payments. Clearly there's a lot of intervention going on now from the government. And if it's successful, a lot of those people will be able to resume payments.

We still have access to borrowers and certainly our loss mitigation team, our home ownership assistance team, are actively engaged in working with borrowers, especially when they've reached out to them directly and/or through lenders. That has not stopped. And I would say that we expect to be very, very active in this space, even as the program continues and as, in fact, deferrals come to an end. There will be a fairly big involvement, as you would imagine, from the big banks in terms of helping borrowers get back onto their payment schedules. But there may be other lenders, smaller lenders perhaps or regional lenders that aren't as able or resourced to be able to manage that. And we'll certainly be active in helping them.

So we are fully geared up to do that. As you heard from my comments, we're cross-training a number of our underwriters right now to be able to assist in this area. And we feel confident that we can manage with that process.

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

I'm sorry. So are you -- with that 13% you know who all of those borrowers are?

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

Yes, we do. I mean, the lenders report to us at the file level. So we are able to identify which of our borrowers, or which of the insured mortgages, are on the deferral program.

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

Okay. And then, I guess just a tag-along to that is what are some of the factors that drive which subsets of these borrowers on payment deferrals that you think would otherwise have gone delinquent (inaudible)?

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

The factors are really going to be a combination of things. Clearly equity plays a big role. So if you have a lower loan to value, you're probably going to have a better chance of curing yourself if you aren't in fact able to replace your income and you have to sell one day. So if you have very little equity that probably isn't an option to you. And then it's going to be a function of what sector of the economy you're in and what type of employment you were in before and whether or not that's something that can resume once we come out of this.

And so we will be doing a more detailed analysis of that once we get the more formal reporting from lenders and identify the areas that we think will be of higher risk of not being able to resume their payments. But to a large extent, the borrowers that have taken up these deferrals, some of them have done it just because it's an additional form of flexibility, not necessarily because they absolutely need it. And I think you'll see that there's a high proportion of folks that will just be able to resume payment once they are more comfortable with their particular personal situation.

And that's basically what we've been expecting at this point. But we will know more once we get more comprehensive reporting.

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

Okay. And just my last question was going back to Phil's comments on how the premium recognition is earned. My recollection was I think [back at] the IPO. I think it was, like, a big change in the premium recognition curve. But my understanding I guess is the premium recognition curve is always going to get outdated (inaudible). It's kind of based on passage of time and experience around loss formation. Was what happened at the IPO kind of a one-time thing? Or if the loss formation accelerates faster than, or meaningfully faster than what you're expecting, could we see something sizeable like what happened back then in 2020 or 2021, whatever that time period would be?

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

Geoff, it's Phil. Back in the IPO time there was a change in the definition. At the time of the IPO, the regulation required you to use a prescribed earnings curve. And what was happening was the loss emergence pattern was diverging from the prescribed earnings curve that OSFI at that time had prescribed. So that was somewhat of a one-time catchup, primarily because the delta was growing between the prescribed curve and the actual loss emergence pattern.

Today any changes are made on a prospective basis, so any impact would be generally expected to be lower than you would have seen at the IPO time. The IPO time was a little bit of a cumulative catchup.

Operator

We will now take the last question from Jaeme Gloyn.

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

Just wanted to get a little bit more color on 2 items. First, in the downside scenario house price declines are expected in the second half of 2020 and then material declines thereafter. Can you just put a little bit of color around what you view as material house price decline?

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

I would say it's an estimate at this point, but anything from 10% to 15% would certainly be within our realm of possibility on a national basis. As you know, there is no national housing market, so you would expect to see more pressure perhaps in certain parts of the country. Alberta is one area that would be of higher risk. But certainly 10% to 15% is sort of the range we're thinking of.

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

Okay, great. And then in terms of the 13% of mortgages that are currently under payment deferral, I think you mentioned 60% have an LTV of less than 80%. Would you be able to also give us what percentage has an LTV of 95% or in that 90% to 95% bucket?

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

You know what? At this point it's a little preliminary to do that. What we will commit to doing is providing more detailed analysis at our next quarterly call because we'll have more comprehensive reporting from our lenders at that point. So I'd rather not surmise on that number right now.

Operator

At this time I'd like to turn the conference back to you, Mr. Levings, for any additional or closing remarks.

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

Yes, indeed. Thank you, again, and thanks to everyone for joining us today. We do appreciate the time. We would like to thank you for your questions and this concludes our first-quarter call and we look forward to talking with you again in the near future.

Operator

That concludes this call. Thank you for your participation. You may now disconnect.