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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Genworth MI Canada Inc. 2018 Third Quarter Earnings Conference Call. (Operator Instructions) I would like to remind everyone that this call is being recorded today.

I'll now turn the conference over to Jonathan Pinto, Vice President, Investor Relations. Mr. Pinto, you may proceed.

Jonathan A. Pinto ***Genworth MI Canada Inc. - VP of IR***

Thank you. Good morning, everyone, and thank you for joining Genworth Canada's Third Quarter 2018 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 Q&A 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 contains 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 & Director***

Thanks, Jon. Good morning, and thanks for joining our call. We continue to see strong operating results this year, with another low loss ratio of 14% for the quarter. While housing markets continue to normalize, they are generally well balanced and employment remains strong, which is positive for our longer-term business performance.

As part of our ongoing focus on capital efficiency, we are pleased to have completed another $50 million share buyback during the quarter. We also announced a 9% increase in our ordinary dividend, underscoring our view that business fundamentals remain strong.

For the quarter, we delivered net operating income of $121 million, up 3% over the prior quarter. This generated an operating return on equity of 12% and diluted operating earnings per share of $1.35, up 3% over the prior quarter.

The strength of our business model is demonstrated in our consistent results over the past few years, due to our high-quality insurance portfolio and a strong macroeconomic environment.

Premiums written totaled $196 million, down $5 million or 3% over the prior year period. While volumes of new insurance written were relatively consistent year-over-year for both transactional and portfolio insurance, the average portfolio insurance premium rate was lower this quarter, reflecting a shift towards lower loan-to-value mortgages.

We ended the quarter with an MCT ratio of 171%, 6 points above our desired operating range of 160% to 165%. We continue to generate excess capital as our older larger books mature and the business generates strong earnings. Taken together with the implementation of OSFI's new MICAT guideline in January next year, we anticipate a meaningful increase in the amount of surplus capital available for redeployment over the next few years. Our capital priorities remain focused on supporting our core business volume and ordinary dividend, along with opportunistic deployment of available excess capital.

Capital redeployment will be a very active part of our strategy next year, as we strive to operate closer to our desired MCT operating range, but would depend on factors including market conditions, share price and the availability of other strategic opportunities for business diversification. Our book value at $45 per share continues to grow, up 7% over the prior year period.

Turning to the economy. We are encouraged by the ongoing strength in labor markets across many regions of the country and believe that although housing markets in major urban centers continue to moderate, they are generally well balanced and the risk of a material decline in house prices remains low. As previously discussed, housing market activity has been soft year-to-date since the introduction of the B20 stress test requirement, resulting in a smaller mortgage originations market. For the most part, we have been able to maintain new insurance volumes in line with the prior year due to market share gains and improvement in the quality of mortgage applications, which have positively impacted our approval rate.

We were pleased to see agreement in principle to the new US-Mexico Canada trade agreement, which reduced the risk of an economic downturn. That said, it also paved the way for a more hawkish stance by the Bank of Canada with potential of a 3 to 4 rate increases in 2019. When we think about the potential impact of a rising rate environment, we need to consider 3 key areas of our business: new insurance written, investment income and losses on claims. It's clear that rising rates will be positive for bond yields and thus investment income over the long term.

However, it will also put pressure on homebuyer affordability to the extent that the qualifying rate increases. In our view, posted mortgage rates already reflect much of the rising rate environment. However, there is potential for a modest increase over the next year or so. That said, we believe income growth, tight mortgage spread and household formation will be positive for demand in 2019 resulting in a new originations market similar in size to the current year.

Longer term, we believe the fundamentals supporting first-time homebuyers remain strong, supported by economic stability and a robust Canadian immigration strategy.

When it comes to losses on claims, we do not anticipate a significant increase in delinquencies as interest rates continue to rise, given strong job gains and income growth. In addition, mortgage insurers have access to loan modification solutions, such as extended amortizations for those who do feel payment pressure during the mortgage renewal process, further reducing the likelihood of default.

As previously noted, we expect our loss ratio to gradually rise towards our long-run pricing level of 20% to 25% over the next few years. This normalization contemplates a balanced housing market and stable economy, but also the potential impact of rising rate on unsecured debts. Consistent with the prior quarter, our loss ratio continues to normalize from the low level we experienced in the prior year. For now, the economy remains very supportive with unemployment rates at near-record lows, and we are maintaining our full year expected loss ratio range of 10% to 20%.

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. We're very pleased with our third quarter financial results and net operating income of $121 million, underpinned by a loss ratio of 14%. These results reflect our strong portfolio quality, disciplined risk management routine and a stable macroeconomic environment.

Premiums earned of $169 million, were down slightly over the prior quarter. This sequential decrease predominantly reflects the seasoning of our 2018 and 2017 books of business, which are relatively smaller than the 2016 and 2015 books. In the quarter, losses on claims with $23 million were modestly lower sequentially by $2 million. The resulting loss ratio of 14% was relatively consistent quarter-over-quarter, reflecting the economic strength in most regions.

New delinquencies net of cures of 328 were lower by 32 sequentially, as decreases in the Atlantic region and Ontario were partially offset by modest increases in Québec and the Pacific region.

Expenses of $32 million were modestly down from the prior quarter and the results in expense ratio is 19% remained within management's expected range of 18% to 20%.

Our investment portfolio contributed $54 million of operating investment income, including $6 million of realized income from our interest rate hedging program. Operating investment income was modestly higher quarter-over-quarter, but increased by $10 million year-over-year.

Overall, our third quarter financial results were strong. Fully diluted operating EPS was up by 3% sequentially at $1.35, operating return on equity was consistent quarter-over-quarter at 12% and book value per share increased by 7% year-over-year to $45.

Turning to underwriting performance. We continued to deliver strong underwriting income in the third quarter with a combined ratio of 32%. We expect premiums earned to be flat to modestly higher for 2018 after growing by 6% in 2017.

However, premiums earned in the fourth quarter may be modestly lower as compared to the third quarter.

Over the past 5 quarters, loss ratios have ranged from a low of 9% to 14%. Based on our strong portfolio quality, favorable economic environment and actual loss performance in 2018 to date, we are maintaining our estimated loss ratio range of 10% to 20% for 2018, as Stuart noted. As a result, we believe the trend of strong underwriting performance will continue for the remainder of the year.

On the investments front, our $6.4 billion portfolio has an estimated pretax equivalent book yield of 3.2%. In total, we expect moderately higher operating investment income in 2018 as compared to last year, led by contributions from our interest rate hedging program. As floating rates have trended higher for the past 4 months, our portfolio of fixed-for-floating interest rate swaps should contribute approximately $22 million to $24 million of realized income for the full year.

In order to protect this income stream, we have also purchased over $2 billion of interest rate floors at a modest cost. These floors ensure that the operating investment income from our interest rate hedging program should be at least $17 million per year for the next 2 to 3 years.

Our capital position continues to be strong with our Minimum Capital Test ratio at 171%, 6 points above the top end of our operating range of 160% to 165%. As Stuart noted, capital management is the top priority and we've taken several actions recently. These include the execution of another share buyback of $50 million under our normal course Issuer bid; increasing the size of our undrawn syndicated credit facility to $300 million to provide additional financial flexibility; and increasing our quarterly dividend by 9% to $0.51 per share, effective in the fourth quarter.

As a reminder, in August, OSFI released the 2019 Mortgage Insurer Capital Adequacy Test or MICAT. We expect to be compliant with this guideline upon its implementation on January 1, 2019, subject to business and market conditions. For 2019, the company expects that the capital impact of the elimination of the onetime update to credit scores for 2015 and prior books should more than offset the 5% increase in the base total asset requirement on existing insurance in-force. Furthermore, the benefit from the transitional arrangement should run off in the first half of 2019.

Based on the company's assessment of its anticipated level of new insurance written, ongoing profitability, easement of its insurance in-force, the new MICAT guideline and other regulatory considerations, the company believes that the total regulatory capital required in 2019 at its targeted operating MICAT range to be lower than under the current framework. Considering all of these factors we, therefore, plan on pursuing a more efficient capital structure in 2019, including operating closer to our targeted MCT operating range of 160% to 165%. Also new insurance written in 2019 and thereafter will attract the higher level of regulatory capital under MICAT. At current premium rates, the company believes that its long-run price in return on equity for transactional insurance written in 2019 will continue to be 13% or greater, assuming similar portfolio quality in 2018 and a long-run loss ratio range of 20% to 25%.

In summary, we are pleased with our recent operating performance. Against this backdrop, we continue to remain focused on striking the right balance between capital strength, flexibility and efficiency.

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

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

Thanks, Phil. We continue to view the fundamentals of our business as very sound. We're entering a transition phase where capital surplus will be a key focus and with the increased certainty that comes from the new MICAT guideline, we believe we are well positioned to work towards a more efficient capital structure with positive implications for longer-term ROEs. This may permit capital redeployment in the $500 million to $700 million range in 2019. We remain optimistic about the future of the first-time homebuyer market and believe there are longer-term growth opportunities available as the market adjusts to a new interest rate environment and relative stability on the regulatory front.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from Geoff Kwan with RBC Capital.

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

First question I had was just going back to MICAT and the change on -- and the changes and the impact on ROE. Wanted to get a sense from you, do you think this has a pretty good chance of leading to another price increase next year? I know there's obviously the competitive dynamic, but let's -- maybe ask it this way, if you were the market leader in the market, is there something that you think would be likely?

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

Geoff, yes. It's Stuart here. I think, the industry has always responded to capital changes with a pricing response and assuming no change in the last outlook, that is the appropriate response. At this point, what we would say, is we're doing our pricing review as our competitors and there's no question that the quality that we're seeing and the improvements in that quality are having a positive impact on our ROEs as a lifetime ROE. So I think, it remains to be seen how the industry does respond. In my view, anytime capital changes, pricing should reflect that. That's a statement that, I think, is true. In reality, we are still very optimistic about the ability to achieve a 13-plus ROE going forward on our new business.

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

Okay. And just the second question I had was, you made reference in your MD&A about increasing the credit facility as well as the accordion. I know that you got it -- one of your debt issues maturing in 2020. Just wanted to, kind of, think about how the -- what the -- in terms of the increased credit availability, is it flexibility to refinance that early? Is it, to your point, capital return given your comments on capital targets, M&A or other factors there?

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

Geoff, it's Phil. The primary reason for the increase is the 2020 maturity. We wanted to size the facility to a similar size the maturity. The maturity is $275 million. So we bumped up the credit facility to $300 million. The way we view that is financial flexibility, being able to refinance that debt on a floating rate basis through the facility or pending market conditions whether it's more attractive to do so in the public debt markets. So we view it as financial flexibility. We don't necessarily see that as related to our return on capital comments in our MD&A. We see that being more geared towards organic capital generation rather than through leverage.

Operator

We'll take our next question from Paul Holden with CIBC.

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

So a few questions for you. I guess, starting with the capital deployment, the $500 million to $700 million in 2019. How should we think about the timing of that? Why does that have to wait for 2019? Why can't that be a 2018 event?

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

So, Paul, the real catalyst there is the adoption of the new MICAT guideline on January of next year. So that would be the initial reason why. I would say, we would expect that excess capital to then build throughout the year, as we continue to turn a good profit and as the seasoning of the older books generates excess capital. So we would see it as a -- sort of a consistent build throughout 2019. And it's not to say that we couldn't look at some form of capital return in the fourth quarter, we continue to evaluate that every time we get through a quarter. And, of course, if the stock is trading at a very attractive level that might be something we will consider. But the quantum that we're talking about is really a 2019 event, and it is on the strength of the new MICAT guideline coming into play.

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

Okay. Are there other catalysts we could think about in terms of potential timing on deployment within 2019 then?

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

I think, what I would say is that as we think about how to deal with this excess capital, as you've heard many times, clearly, our first focus is on the core business and making sure we have enough for that. And to the extent, we see any shifts in that and perhaps in terms of portfolio insurance and new opportunities there, we want to make sure we have enough capital for that. But beyond that, it becomes more opportunistic. So the extent we got the excess, we would definitely be looking at where the stock is trading relative to our long-term view of its intrinsic value. And if there's an opportunity, we may well jump and take advantage of that. Failing that, I think, it will be a more consistent rhythm. And of course, with the quantum we're talking about, I think one can safely assume there will be a mix of capital deployment strategies, including both buybacks and special dividends.

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

Okay. That's helpful. In terms of the investment yield, how would I think about the current market yield of 3.2% versus what's available to you through reinvestment today -- are the reinvestment rates sort of in the high 3s? Is that a reasonable bogey?

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

It's, Phil. Paul, I'd say reinvestment yields are right around the 3.2%. We're primarily a high-quality single A and above type fixed income investor. So when you look at spreads with those bonds, with a 5-year Canada 2.40%, the spreads on a single A are probably 90 basis points. So we're right around that 3.2%. The other thing of note though, as we go into 2019, to the extent that we execute capital redeployment, that will reduce the size of investment portfolio. So there's likely to be fewer reinvestment opportunities because as bonds mature those funds may be used for capital redeployment.

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

All right. Okay. That makes sense. So just -- I mean the one piece of that I'm little bit puzzled by is your average yield is -- has been increasing and increased in Q3, but yet you're saying the reinvestment rates are roughly equal to the market yield. How do I square those two?

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

Great question. The way I'll look at that is, we have essentially utilized our maximum appetite for preferred shares. And preferred shares, as you know, have a higher pretax equivalent yield. So that is what's been driving that increase in yield. But as we go forward with the reduction in the portfolio size, we won't necessarily be reinvesting in preferred shares on a go-forward basis. So that's why any new money is more likely to be in the bond market and bond yields are going to be in that 3.20% to 3.40% corridor.

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

Okay. That's helpful. And then final question is just with respect to the commentary provided on your premium written outlook, sounds like you're expecting sort of flat-type market in 2019, even with higher interest rates. What would you say is the primary risk to that type of outlook? Like, volumes are coming out a little bit a lower, not a lot, but a little bit lower than you would have expected in 2018. So what do you think is the risk to the 2019 outlook?

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

Well the risk in my mind is clearly how interest rates behave. I think at this point, our observations are that the 5-year bond yield curve is relatively flat to where it is now. And so there isn't necessarily an anticipation of significant increases on that 5-year mortgage rate, which is really the governor now with the qualifying of the stress test. So to the extent that, that shifts and we see a more pronounced increase in that 5-year bond yield, I think, that would definitely put more pressure on the size of the market for 2019. Our obvious offset to that is market share, right? So what we're thinking about is a flattish market next year with some market share gains to help our NIW line. To the extent that the market size is a bit smaller than that, we'd just have to work a little harder on the market share size to try and maintain our levels of NIW.

Operator

We'll take our next question from Graham Ryding with TD Securities.

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

Your long-run -- your ROE expectation continues to be 13%-plus, despite capital going up by 5% for new business written 2019 and beyond. Is that -- as I don't think you're assuming pricing increases in there, is that a reflection of a more efficient capital structure as the main offset factor here?

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

Graham, it's really a combination of few things. That is certainly, as we now have the opportunity to operate closer to our range of 160% to 165% that will help. As you know, we've been operating a little higher than that in the past couple of quarters now. And then secondly really the quality of that portfolio, as we referenced earlier, the stress test has -- while it has shrunk the market, it has certainly taking out a bottom level of quality, the lower credit scores, if you will, the more indebted consumers, if you will, and that has had an impact on our outlook for pricing going forward. So the return profile, 13%-plus, currently doesn't contemplate any price increase, as you pointed out. And it contemplates capital running at closer to that 160%, 165% level. Obviously, absent the capital increase, it would have been even higher. But the reality is we are still able, in our view, to achieve our targeted ROEs over the long term under the current assumptions.

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

And given that assumption, does that, sort of, work against the argument for pricing increase? If you feel like you can generate a 13%-plus ROE, does that, sort of, go against your argument that you need a pricing increase?

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

I think it's fair to say that given the quantum of capital increase is relatively small, given the return profile and given the current loss environment, I would say that the forces are probably not in favor of an industry move towards a higher price increase. Now that's said, academically, as I noted earlier, any time capital increases, arguably, pricing should reflect that. But I think there are some market realities that we need to acknowledge and realize that there is less of an argument for that in this environment, as you noted.

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

Fair enough. And then just my last question on the delinquency side. Ontario and B.C. delinquency rates are noticeably lower than the Prairies and Québec. Can you just provide some color on that? Is that a reflection of the, I guess, the strong employment conditions in Ontario and B.C. relative to those other provinces? Or is it that in a combination of just the housing markets being relatively stronger in Ontario and B.C, although they're starting to soften?

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

It's both, Graham. I mean, the reality is that, as we noted prior calls, the market hasn't softened in the first-time homebuyer space anywhere near to the same extent that it has in the higher end -- I would say mid- to higher end. The first-time homebuyer space has seen increased competition, more buyers are moving into that space. So it's been very resilient. That coupled with a very strong employment we see in those 2 provinces, has really showed up lost performance in those 2 markets. That's why you continue to see such low levels of new delinquencies in those 2 provinces.

Operator

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

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

First question is around that price increase conversation. How much does the fact that with the premium and a 95% down payment, you're kind of getting pretty close to 100% LTV. How much is that factored into the ability to continue to increase premium rates?

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

Jaeme, it's a really good point. I mean, obviously, as you approach 5%, you're pretty much at the max. You can't really capitalize beyond a 100% loan-to-value. So that is a factor. However, I would also point out that the capital shift might dictate that you would increase price at different LTVs to a different extent or perhaps you wouldn't increase the 95% LTV at all, but you might look at increasing the 90% LTV. So in our pricing analysis, as we go through that analysis, our indication would certainly be that the increase wouldn't be equal across all factors and that's why we still see some potential for an industry response. But to your point, at the 95% LTV, you are getting relatively close to any max that they would be there.

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

Okay. I agree. That's fair point. In terms of the regulatory environments, it seems they've taken a pause a little on the insurance side. Now with rates sort of backing up, there's a little bit of chatter around what the government might do with the stress test. Do you have any -- granted it's still very early and we're not even at normal rates, but do you have any indication or conversations with the regulatory bodies around making the stress test a little bit more dynamic?

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

Yes, it's a great question. We have certainly been in discussion with regulatory bodies on that, very point. And I think, there's some acknowledgment that as base rates have continued to rise, the need for the same level of stress may well be different. And I think that as we enter 2019, there is potential for some consideration of a stress test 2.0, if you will, with a little bit more of dynamic approach in it. Certainly, it is early on, as you point out, and I don't have any clear indications from anyone as to what might actually change. But the acknowledgment that we're closer to long-term neutral rates does mean that there is, perhaps, some thought around change in the structure of the stress test, such that it doesn't continue to apply the same level of stress throughout the rate environment, as we go into 2019. That would be positive for our market and positive for first-time homebuyers because even though monetary policy could continue, it would no longer put additional pressure on the qualifying ability of first-time homebuyers or buyers in general, I would say. Yes.

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

Right. Moving to the interest rate hedges. Obviously, such a fantastic trade decision this quarter to put in the floors. Can you give us a sense as to the cost of those floors? What are we thinking about here in terms of quarterly expense that could limit the upside benefit of rising rates on the swaps?

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

Jaeme, the quarterly cost is going to be less than $1 million. I mean, our total cost over the future 3 years is $7 million so when you amortize that quarterly, there will be a nominal impact. It still leaves us some -- the upside, but we certainly capture downside.

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

Right. Okay. And those swaps, the first ones roll off in, sort of, mid-2021. Is that correct?

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

That is correct. So certainly for '19, '20, we've sort of got that minimum $17 million income figure locked in.

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

Okay, great. And last one for me, just want to, sort of, shine-a-light look over across to the Australian experience, Genworth Australia. They're, obviously, having a little bit of a tougher experience than yourself. One of the things that they're citing is moderating housing market tightening, credit standards, increasing mortgage interest rates, we're kind of, in that, kind of, period right now, and the effect that, that environment has had on cure rates. Can you just sort of talk about how -- obviously, cure rates have been fairly stable in Canada, but how are those factors -- how could those factors impact your experience here in Canada? And how you're thinking about that, going forward?

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

Yes, Jaeme, that's absolutely one of the drivers of why our loss ratio will look to normalize over the next couple of years. As you know, in a very strong market like we've seen, cures are very, very frequent, not only just through our own work, but just self-cures, borrowers who are in a situation where they've lost the employment, are able to just sell their home and move on. As you see markets tighten, as you see markets normalize, less robust house price -- or housing sales rather, you are going to see more of those borrowers who have entered into some kind of financial difficulty roll into a delinquency and potentially even into a claim. So we do factor in some moderation in the cure rate, as we think about a normalizing loss ratio over the next couple of years. Absolutely.

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

Okay. Are you able to quantify that a little bit? If I think about the cure rates, workout penetration targets of 55%, where would you sort of have that trending down to, as the loss rate normalizes? Are you able to quantify?

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

It's hard to really put actual numbers on that. I mean, what I would say is right now, we already see varying cure rates across the country. When you think about a market like Alberta, the cure rates are a lot lower there, might be only 35% relative to much higher cure rates in Ontario and B.C. So that helps to inform us a little bit. As you think about a normal housing market and labor market, perhaps, cure rates come down into mid-40s. But at this point, we don't have specific numbers on that. We just know that anecdotally and directionally, they do come down. Keep in mind, again, it's always hard -- sometimes, we don't know about a cure, right? Sometimes individuals who got into trouble, cure before they even notified us that they were in trouble. So it's not always easy to have an exact handle on the quantum of that other than the ones we do ourselves.

Operator

Our next question comes from Tom MacKinnon with BMO Capital.

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

Question with respect to the MICAT capital. I think what you mentioned is for new business written, it's going to require a little bit more capital from -- for new business written in 2019 and beyond. But then overall, you have lower regular capital -- regulatory capital. So help me square that. How long before the impact of higher capital for new business written is going to, eventually, take away from some of the benefit that you're getting in 2019, overall?

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

Yes, great question, Tom. One thing to remember is when the new capital framework came into place in 2017, we had to deal onetime update to credit scores in 2015 and prior books of business. And that cost us couple of hundred million dollars of capital. Now that we're going back to using origination credit scores, but holding 5% higher total asset requirement, net-net on the existing in-force business, that will be a net positive. So that's why we expect on the in-force portfolio at the end of 2018. As we move into 2019, we will actually see a modest reduction in capital required. And as that book continues to age, that will accelerate. So that's why we don't see -- that's a rationale for the net decrease in capital on the in-force book. Your point is well taken, regarding new books of business will attract higher capital than the 2018 book does attract. But we need to recall that the 2015 and 2016 books of business were quite large, both for transactional and portfolio insurance. And with the smaller market size, they're being replaced with books of business that are moderately smaller. And in the case of portfolio insurance, materially smaller. So as we look at it, I think, we will adjust to a new normal total level of capital over 2- to 3-year period of time. And then I think we would -- unless we see major swings in the size of the market, we'll see capital stabilize. But for the midterm, I think, we're likely to see a decline in trend in required capital. That doesn't translate in -- necessarily into a decline in earnings trend because we've had the premium rate increases. So the 2017, 2018 and 2019 books, we'll have a much higher average premium rate. So I think that we are going to see some moderation of total capital going forward and we see it as a trend that -- as a 2019 trend and that trend may extend into 2020.

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

And how much would you say you -- how much in terms of excess capital do you generate annually or per quarter?

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

I think, in today's current framework...

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

In 2019, under the new framework?

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

In 2019, well I think, our indication of $500 million to $700 million of capital being available for redeployment is really a reflection of the total amount that we expect to generate. That would be a combination of earnings and reduction in the total capital required. That's our best estimate at this point in time. So if you sort of divide that by 4, I think you get -- and as Stuart said, it's likely to build through the course of the year. But I think it's reasonable to say the numbers look somewhere in that $125 million to $175 million range.

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

Okay. And you mentioned a long-run 20% to 25% loss ratio. Now we can never go and look back and see what it was historically because the book of business has changed considerably. We've had all kinds of price hikes, we've had all kinds of changes in the products since then as well. On top of that, you can't no longer get no money down for no 40-year amorts. So we've got a significant change in that part of the business as well. So I'm not sure how you actually came up with this 20% to 25%. Like I was under the impression that the unemployment rate really drives this thing. People default on mortgages because they lose their job. So when you do the 20% to 25%, what sort of unemployment rate do you put in on that assumption?

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

Tom, we really assume almost....

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

On the 20% to 25%.

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

Yes. When we think about that, we think about essentially, like I was saying in my commentary, a stable economy which assumes full employment -- normalized unemployment rate of, let's say, 6.5% to 6.7% and a balanced housing market. And if you had that scenario, you'd actually see losses in Ontario and B.C, again. Currently, as you know, we're seeing so few losses in those 2 provinces that's really underweight, given their representation in our overall portfolio. So the assumption is that you actually start to see normal levels of losses in every region of the country. And we're not seeing that today, obviously, but if you were to get back to that scenario then you would see a loss ratios in that 20% to 25% range. Obviously, that's a theoretical scenario. It never really happens that way. You'll always going to have some provinces that are firing above that line and some that are below that line. Historically, Québec and Alberta have always been above that for us with Ontario and B.C. below. But our outlook contemplates normalization of losses in Ontario, and B.C. and continued improvement in Alberta. Perhaps, Quebec has already seen all of its improvement it's going to have. So that's kind of how we think about it. But you're absolutely right, unemployment is the key driver of our losses, and certainly, you won't see loss ratios really normalizing until you start to see unemployment normalizing. And our view is that, it's probably not likely that we will sustain these all-time low unemployment levels for any length of time, especially given the cycle that we're in at this point.

Operator

We'll now take our next question from Geoffrey Dunn with Dowling & Partners.

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

Couple of questions on capital management. I guess, first, how are you thinking about buyback versus specials, in particular, if the stock is trading at or below book value?

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

Geoff, we really do have a lot of discussion on that internally. And really our view is that, if we think that the stock is trading below what we view as our long-run intrinsic value -- you can comment on that in a variety of ways, but we do think that, that is something that we will continue to monitor. And if we're trading below that at a meaningful discount to that intrinsic value, we're going to favor buybacks. To the extent that the stock trades above that level, we're going to favor dividends -- special dividends. And certainly, as we think about the market we're in right now and the sentiment around housing risk and vulnerability in terms of borrower indebtedness, et cetera, we have seen, as you know, a general downdraft on financial stocks and stocks exposed to housing and consumer indebtedness. So at this point, buybacks look great. I think, as we go through 2019, we'll have to continue to monitor that and see how it looks relative to our view of the intrinsic value.

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

Okay. And then in terms of the $500 million to $700 million, it sounds to me like -- let's just call it round number, let's call it $400 million to $450 million is the earnings for next year and the delta is, what you would consider, maybe excess as of year-end '18. So I'm not -- forget the specific numbers, but am I thinking that correctly?

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

I think that's a fair characterization. I think the -- what you've described as excess at the end of 2018, it's something that will emerge throughout 2019. So it's not necessarily excess at the end of 2018. But based on our forward-looking forecast, internal forecast that is, we would expect that as the older books of business season, in particular the 2015 and 2016 large books of business, as they season and reach -- require less capital, that capital will emerge throughout 2019.

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

Okay. That was my next question. So there is not a, for lack of a better word, an upfront release. It really isn't an amortized opportunity over the course of the year linked to run-off of some of the old books?

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

That's correct. There's not a cliff effect.

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

Okay. And then in terms of, sort of, I think you said you might have a rhythm to your buyback. Are you thinking as much as a daily target or minimum target per eligible trading day? And is there any restriction on daily volume specific to your shares?

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

There is the usual NCIB rules that we will be following. And certainly, as you know, we still have an open NCIB with a certain amount of rule on that, Geoff, which we will continue to try to utilize as the opportune presents itself. But that is definitely what will dictate how we buy back shares. Once you get beyond the NCIB, it becomes a bit of a different game as we would have to contemplate SIBs at that point, and that certainly will be something we take into account as we look at our excess capital.

Operator

And I'll move to a follow-up with Geoff Kwan with RBC Capital.

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

Just have 2 follow-up questions. When I think about your dividend payout ratio on just your base dividend as opposed to any time that even in the past you've done a special dividend, that usually has been somewhere around 37-ish percent on the full year basis. And when you talk about expecting loss ratios to normalize, so unless your premiums earned increase a lot, your operating efficiency improves lot and/or your investment income increases a lot that would seem to suggest that payout ratio is probably going to increase by some degree over the next several years? Is that the way to think about it? Or are there other puts and takes that drive? How to think about whether -- yes...

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

Yes, that's certainly part of it. I mean, obviously, share buybacks do help in the sense that they will decrease the account count that is involved. And therefore the quantum of dollars required to service the ordinary dividend, but I think our buyout ratio -- or payout ratio rather has always been targeted between 35% and 45%. We don't see ourselves getting anywhere close to the upper end of that range over the next couple of years.

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

Okay. And then just the second question I had was, you made the comment about intrinsic value when thinking about the buyback versus other forms of capital return. But if we look at it very simplistically way on valuation, say, on a price-to-book basis, if you're achieving an ROE of 13%, you wouldn't expect the stock to be trading at or even below book value. But -- so you would expect that the special dividends would be less likely, you'd just be buying back all the stock all day long. Is that a fair way to think about? Or do you think that given how Genworth has traded since its IPO that maybe you have to take into consideration maybe that people look at valuing mortgage insurers differently than, say, other P&C insurers or just other financial stocks, broadly speaking?

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

I think, that's a fair comment. We're obviously a monoline mortgage insurer. We obviously have some unique exposure to macroeconomic risk. And so therefore, we may not trade exactly the same multiples as 13%-plus ROE type businesses. However that said, we've always maintained that our intrinsic value is not a book value given the structure of our business model, our unearned premium reserves and we do look at things like discounted cash flows to really try to come up with a computation of what we think intrinsic value is. In our view, at this point, I would say, it is north of book value. So that doesn't mean we will continue to always buy back above book value because we will be looking at, are we trading at a decent discount to our intrinsic value. However, it's not going to certainly limit us to just book value.

Operator

(Operator Instructions) We'll take our next mission from Graham Ryding with TD Securities.

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

Just talking about moving towards that 13%-plus ROE, if we make an assumption that you will be operating in that 20% to 25% loss ratio forecast, when do you think your business will generate an overall ROE of 13%-plus?

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

Graham, I would say, it's going to take a couple of years still, because what you're looking at is new business ROEs are in that 13%-plus range right now, actually higher with the low loss ratios. But as the loss ratio normalizes, they'll be in that 13%-plus range. And as you know from our business model, it takes some time for the earned premium to work its way through. So it will probably be a couple of years, but I think we're able to really hang onto this current level ROE in the interim, as we work towards that 13%-plus. So it's going to be a nice build over the couple of years.

Operator

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

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

Thank you very much, and thanks, again, for joining us today. We do appreciate your time. This concludes our third quarter 2018 earnings call.

Operator

Thank you. That does conclude today's conference. Thank you all for your participation.