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PRESENTATION

Operator

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

I will now turn the conference call 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 First 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 question-and-answer session.

Our news release, including our management's discussion and analysis, the financial statement, and financial supplements were released last night and are posted on our website at www.genworth.ca. A link to our live webcast and the slides for today's discussion are also posted on our website. A replay of this call will be available via the other number noted in the press release and will also be available on our website following today's presentation. The call will be available online for approximately 45 days following today.

As a reminder, our presentation and discussion today contain a disclaimer on forward-looking statements and non-IFRS statements on disclosure. We note that our actual results may differ from statements that we make which are forward-looking. We advise you to read the cautionary note regarding these forward-looking statements. As well, some of the financial metrics presented on this call today are non-IFRS measures and as such do not have a standardized meaning and are unlikely to be comparable to similar measures by the 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. On today's call, I'm going to walk through some key financial highlights from our performance in 2018 and share some perspectives on the themes shaping our outlook for 2019. Phil will discuss some of the highlights from our fourth quarter results. I'll wrap up with a reminder of our key strategic priorities for the year.

We are very pleased with our 2018 results, which reflect ongoing strength and underwriting performance, proactive investment management and another year of strong portfolio quality. For the year, we delivered net operating income of $475 million, up 2% over the prior year. This generated a return on equity of 12% and diluted operating earnings per share of $5.27, up 4% over 2017. These results reflect consistent premiums earned, sound expense management, strong investment income and a gradually normalizing loss ratio as housing markets continue to stabilize.

Net premiums written totaled $639 million for the year, down 4% over the prior year. This includes a 3% increase in premiums written from transactional insurance, offset by a significant decline in portfolio insurance premiums written as high average premium rates and regulatory constraints continue to dampen lenders appetite for this product. As discussed on prior calls, transactional insurance volumes continued to be negatively impacted by affordability pressure, driven by elevated house prices, the insured mortgage rates stress test and rising interest rates.

The decline in volume was offset by a high average premium rate from the March 2017 premium rate increase. We believe the high loan-to-value originations market will stabilize this year as borrowers continue to adapt their buying behavior in a more balanced housing market and potentially more stable interest rate environment.

At 15% our full year loss ratio came in at the middle of our most recent range of 10% to 20%, and up 5 points from the prior year. This performance continues to reflect the value of a high quality insurance portfolio and a strong, albeit normalizing housing and labour market. As noted at our recent Investor Day, we expect our loss ratio to gradually return to pricing levels over the next few years as housing markets and consumers adjust to government actions and rising interest rates in a stable macroeconomic environment. Based on our current market assumptions, we expect the full year loss ratio range of 15% to 25% for 2019.

We ended the year with an estimated MCT ratio of 171%, above our targeted operating range of 160% to 165%. Our capital priorities remain focused on supporting our core business volumes and ordinary dividends along with redeployment of available excess capital. This will be an active part of our strategy this year as we strive to operate closer to our targeted operating range. That will depend on factors, including market conditions, share price and the availability of other strategic opportunities for business diversification.

As part of our ongoing focus on capital efficiency, we are pleased to have completed another $50 million share buyback during the fourth quarter. As noted on our third quarter 2018 earnings call, we increased our quarterly dividend by 9% to $0.51 per common share and paid a total of $1.92 per common share for the year, up 7% over the prior year. Our book value at $45.21 per share continues to grow, up 5% over the prior year, driven by ongoing profitability.

Turning to our current environment, we see a number of key themes that will influence our business in 2019. On the economic front, we are encouraged by the strengthened labour markets across many regions of the country and the recent recovery in Canadian oil prices. Furthermore, we believe that the ongoing normalization in major housing markets across the country, together with employment income growth, bodes well for future homebuyer affordability with a healthy pipeline of first-time buyers due to the robust level of immigration over the past few years.

That said, we also acknowledge the increased level of economic uncertainty related to global trade and the additional pressure on household performance as a result of rising interest rates. As previously noted, we expect our loss ratio to gradually rise toward our long run pricing level of 20% to 25% over the next few years. This trend contemplates a balanced housing market and stable economy, but also the potential impact of rising rates on consumer debt.

Overall, we believe income growth, potential for tighter mortgage spreads and household formation will be positive for demand in 2019, resulting in a new originations market similar in size to the past year. That, together with our strategy focused on growing market share, should bode well for modest growth in total premiums written in 2019.

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

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

Thanks Stuart and good morning. Our fourth quarter financial results continue to trend favorably with net operating income of $117 million, underpinned by a loss ratio of 18%. These results reflect our solid portfolio quality, disciplined risk management practices and a generally favourable macroeconomic environment. Premiums earned of $169 million were flat with the prior quarter and down 1% versus the prior year. A modest year-over-year decrease predominantly reflects a lower level of premiums written in 2017 and 2018 as compared to the preceding 2 years.

New delinquencies net of cures were essentially flat sequentially at 326 loans as improvements in Quebec and the Pacific region were partly offset by modest increases in the Prairie, Alberta and the Atlantic regions. This translated into losses on claims of $30 million, representing a sequential increase of $7 million, primarily due to a higher proportion of Alberta delinquencies with a higher average reserve per delinquency. The resulting loss ratio of 18% was up 4 percentage points quarter-over-quarter.

Expenses of $32 million were essentially flat with the prior quarter and the resulting expense ratio of 19% remained consistent with management's expected range of 18% to 20%. Operating investment income was $57 million, representing increases of $3 million sequentially and $7 million year-over-year. In both cases, the main drivers were the increase in realized income from our interest rate hedging program, as well as an increase in the average amount of invested assets year-over-year.

Overall, fully diluted operating EPS was down 2% sequentially at $1.32. We're pleased with these fourth quarter financial results, including our operating return on equity of 12% for the full year and the 5% year-over-year increase in book value per share to $45.21. Both of these key measures have benefited from our share repurchases in the past year.

Our reported net income for the quarter was a $80 million, including losses on derivatives and foreign exchange of $46 million, driven primarily by the impact of lower interest rate expectations on the market value over interest rate swaps. That being said, we saw similar magnitude increase in the market value of our bond portfolio, which is recorded through other comprehensive income. Overall, our hedging program is working as expected.

Turning to underwriting performance, we continued to deliver strong underwriting income in the fourth quarter with a combined ratio of 37%. Looking forward to 2019, premiums earned are expected to be flat to modestly lower, as contributions from the relatively higher level of premiums written in 2015 and 2016 will be partially offset by lower contributions from the relatively smaller 2017 and 2018 books of business.

While we expect continued loss ratio normalization towards the long run pricing range of 20% to 25%, new business pricing return should exceed 13% under the 2019 capital framework.

While we're comfortable with overall transactional insurance pricing, we will continue to review various new business segments as part of our annual pricing review that's underway. Altogether, we expect solid underwriting performance to continue into 2019.

Our investment strategy focuses on producing a consistent income stream from high quality fixed income securities, including a modest 8% allocation to preferred shares. Currently, our $6.4 billion portfolio has an estimated pre-tax equivalent book yield 3.3% and our portfolio yield in 2019 should be relatively similar or modestly higher.

In total, we expect modestly higher operating investment income in 2019, led by contributions from our interest rate hedging program, which should contribute approximately $30 million to $40 million of realized income, up from $22 million in 2018. This is premised on maintaining a spread of approximately 100 basis points between floating rate and the weighted average contract rate of 117 basis points on our interest rate swaps. Overall, we're comfortable with our portfolio composition and our investment strategy should be a material contributor to our net operating income in 2019.

Our capital position continues to be strong with our Minimum Capital Test ratio of 171%, 6 points above the top end of our operating range of 160% to 165%. During the quarter, we executed share repurchases of $50 million, as Stuart noted. This brings the full year total of share repurchases to $150 million, all of which were completed below book value. As a result, our holding company cash has been temporarily reduced to $55 million, a level we're comfortable with in light of the expected capital generation profile in 2019 and our undrawn credit facility of $300 million.

In our third quarter release, we highlighted that the changes to the 2019 Mortgage Insurer Capital Adequacy Test or MICAT, should set the stage for stability in the regulatory capital framework for the next few years. These changes are largely offset in aggregate as a 5% increase in the total asset requirement is being largely offset by the elimination of the previous requirement to use updated credit scores for the 2015 and prior books. The net result is that we expect the total asset requirement for insurance risk to decline in 2019 given the relatively smaller book in 2018 and 2017.

After funding organic growth opportunities, we'll be focused on capital redeployment strategies to maximize shareholder value, including ordinary dividend increases, share repurchases and/or special dividends. That said, regulatory capital requirements for insurance risk are influenced by several factors, including changes in the loan-to-value and credit score mix of outstanding insured mortgage balances, repayment patterns and lapses of insurance coverage due to full repayments, refinances or property sales.

Recently lapse rates have trended down in concert with affordability pressure and we're monitoring this trend. We intend to review the sources and uses of capital on a quarterly basis to inform any decisions on the redeployment of capital.

As a result of the capital being generated from ongoing profitability and the seasoning of the insurance portfolio, our forecasted capital redeployment is in the range of $500 million to $700 million, with a bias towards the lower half of the range. Overall, we expect for 2019 operating ROE to be relatively similar to the 2018 ROE of 12% as we strike 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. In our view, we have a sound business model, operating in a supportive regulatory and macroeconomic environment. Our high quality, well diversified portfolio and strong risk management practices position us well to manage through variability in economic performance.

Our strategy for 2019 remains focused on prudent risk management, industry thought leadership, and delivering a best-in-class customer service experience. We believe there are opportunities to enhance our customer value proposition through product innovation, leveraging advanced analytics, and our extensive mortgage data, which could lead to modest market size expansion over the longer term.

Our key strategic priorities are therefore as follows; Drive market share growth by leveraging advanced analytics and process enhancements to improve our customer experience, continue to exercise prudent risk management and proactive loss mitigation, develop innovative products solutions to enhance our value proposition, right size our capital levels to drive improved returns and influence key government stakeholders to focus on first-time homebuyer affordability.

In summary, we believe execution on these priorities will produce another year of strong profitability and operating returns consistent with the prior year.

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) Your first question comes from Geoff Kwan from RBC Capital Markets.

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

First question I had was, there has been some discussion that maybe there might be a tweak in terms of the mortgage insurance, call it the ceiling on $1 million homes that might go up. Have you done any sort of math, sensitivity if it got increased let's say 100,000 or whatever number might have been done as to what that might impact on net premiums written? And I'm just making assumption here maybe for all homebuyers, although change may, say for example, target just the first-time homebuyer.

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

Geoff, good morning. It's Stuart here. We haven't done actual math on that kind of thing yet at this point, because our view is that there are a number of things that the government is potentially considering around changes to help first-time homebuyers. The ceiling is one aspect. I think the 30-year am is another. And of course, you've seen some discussion around whether or not the stress test could see some modifications. So at this point, we accept that any of those would be positive in terms of market size. And if we were to see an actual change, we would do the math on that to figure out how much more of a market we have. I think either scenarios is great for our industry. And frankly -- probably necessary in terms of helping some of the first-time homebuyers who have seen incredible amount of pressure on affordability over the last 2 years.

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

Phil, I had a question. Just want to make sure I understand this right. So the comments around moderately higher investment income in 2019, including the hedges. So when you take a look at the 2018 full year number, I think it was $195 million with interest and dividends, you had about $21 million from the hedge income, so call it $216 million. Is that the base you're kind of talking about as the guidance for the 2019 number or is it some other figure?

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

I think, Geoff, you captured the 2 line items that we're focused on. I think, we would say that given where CDOR is today, we can see some additional realized income from the hedging program in 2019. So that's what would be the contributor to modest increases. That being said, our portfolio yield at 3.3%, we expect that that will hold or be modestly higher. So we see 2 potential drivers of modest improvement in investment income.

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

And just the last question I had was. I just want to make sure I understood your comment around the pricing review. It sounds like it's still ongoing as opposed to being completed, because I think in prior years usually when there has been a price increase it's usually, say, been done by now and an announcement has been done. Is that the right way to think about it? In other words, like I said that it's still -- the review is still being done or it's been completed.

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

Yes, Geoff the review is still in progress. Pricing changes don't have a specific exact date when that might get announced. We've seen pricing changes in the past by now, as you pointed out, but also sometimes into March or April. So I would say that we're wrapping up our price review as we speak. I assume our competitors are doing the same thing. And then after that we normally just look at it with OSFI and go from there. So it is still possible that there could be some shifts in pricing. And as Phil pointed out in his script, particularly within certain buckets within LTVs. I think the absolute level may not change, but the mix and the pricing at the lower level, more granular level might see some movement. But that remains to be seen.

Operator

Your next question comes from Tom MacKinnon of BMO Capital Market.

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

Couple of questions. One is with respect to the market share. Can you talk about what it is in the quarter and what it was at the beginning of 2018 and maybe at the summer of 2018? And then just like a follow up from that.

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

Yes, Tom its Stuart here. The market share fluctuates a little bit through the year as you see a lot of closings in Quebec as you know in our second quarter and that generally tends to swing share a little bit as one of our main competitors are more dominant in Quebec. I would say that, overall, our market share right now is in around the third level and it's up about a 1 point from a year ago. Our goal rather is to grow market share approximately 1 point a year, as you know. It is a long sale cycle and there are puts and takes to that over the course of time. But, generally speaking, we will see our share up about 1 point and we expect to continue to grow that share by roughly 1 point a year over the next couple of years.

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

And you mentioned affordability issues hurting the transactional top line growth. What do you see as changing this dynamic going forward?

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

Well, a couple of things. I think first of all, there is obviously a bit more of dovish stance right now as far as interest rates and the potential for further increases. I think that would put more pressure on if there were to be a lot more increases. I think that that might be a bit more of a helper this year, a bit more stable environment. Then there is also the fact that house prices are moderating. And so, I think, as buyers have sort of stayed on the sidelines a little bit, particularly first-time buyers. What they are looking at now is perhaps a bit more of price stability, while income growth has continued to be relatively strong, so that will also help affordability. And then lastly, as I mentioned in my script. If indeed there is some adjustments to some of the rules, I think that will, in fact, help with the affordability equation as well. In particular, the 30-year am, which -- arguably it's a onetime adjustment, but it will in fact inject a bit more affordability into the first-time homebuyer space, which as you know, is held to a 25-year am relative to the rest of the market that can do 30-year am today.

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

So moving the 25 to the 30-year am for that task, is that right?

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

Yes. Right.

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

And then is there any -- anything on the political front that might impact affordability?

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

Well, we certainly have seen the minister of finance talk about, looking at measures to address affordability, particularly for first-time homebuyers. We know that there is a budget coming up and we know it's an election year. So I think when you put all of those things together, there is some expectation that there might be some measures in the budget for first-time buyers. It could be some of the things we just talked about. It could also be other things like tax incentives or rebate program. So it remains to be seen. But I do think to your point, there is the political environment at play that could lead to some changes that will be beneficial to first-time homebuyers in 2019.

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

And then finally on the $500 million to $700 million in capital redeployment in 2019, although it's biased to the lower end of the range. Even your full share buybacks would only be in the area of $200 million. So there is another $300 million here in terms of room. Can you talk about -- even to hit the bottom end of that -- can you talk about what you might do?

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

Yes, I think as we have talked about in the past, there is obviously a couple of options. We could still look at buyback if we thought that there was a valuable opportunity in terms of the share price, looking at it through an SIB. There is also the options of deploying it into other growth opportunities. So for example, if the market actually does see some lift because of some measures taken and the first-time homebuyer space is a bit larger than we currently anticipate, that will absorb some excess capital and we would be very happy to deploy it towards that growth. There is also the opportunity for the portfolio insurance market to continue to be a bit bigger than we expect because of bank demand. So there are other areas that could absorb capital. Failing those things, there is also the ongoing strategic review that we always have. If there is no actionable opportunities in that space then we would probably look at a special dividend.

Operator

Your next question comes from Graham Ryding of TD Securities.

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

May be an update just on what you are seeing in the Alberta market. I guess, do you feel like the most recent sort of loss performance that you saw in that 2015-2016 period is comparable to where we might be headed in 2019 or how are you feeling about that market?

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

Yes, absolutely. Graham, I think the reason for our loss ratio range in 2019 is predicated somewhat on the fact that the Alberta is definitely still struggling, particularly under the weight of the B20 stress test and the impact that has had on house prices in that market, coupled with the struggle they had with oil prices and the impact on unemployment. So we don't see a very quick turnaround in that market. We think it will be a gradual recovery. Obviously oil prices have come back which is positive, but the housing market there is still going to take some time to stabilize. So part of the reason for the 15% to 25% is that. The other part of it is really just the fact that you are seeing normalizing housing markets in the other 2 big markets of the country, basically GTA and GVA. And as we have talked about before, that will impact a number of natural cures that we have been seeing in the past and so there should be some upward bias on the number of losses in those markets. So when you put it all together, I think that gives us comfort that we are in that range of 15% to 25%. There is also potential upside should the Alberta market recover faster than what we are expecting. That could help the loss ratio in 2019 and beyond as well.

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

You did update your sort of language on the redeployment of capital just with a bias towards sort of the $500 million to $600 million range, I think, is the message. What prompted sort of revising your guidance there slightly?

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

Hey, Graham, it's Phil. As we were sort of tracking the 2018 capital requirements, what we noted was that the number of borrowers that were moving from high ratio to conventional mortgages through refinances, in particular, that that number decreased with the implementation of the mortgage rate stress test. So really we thought it was prudent to update our assumptions regarding that and just note that if that trend were to continue that -- then the bias will be towards the lower half of the range.

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

Does that mean you just have more policies that stay on your books for longer or does it actually have an impact on your potential claim that you pay out?

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

We don't think it really impacts claims, because it's really about persistency of capital -- for required capital. So any impacts on claims will be marginal. But clearly on required capital, means you hold capital for a longer period of time, because those borrowers that may have otherwise refinanced into the conventional market, stay in the higher ratio market and therefore we hold the required capital for longer period of time.

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

Graham, just as a follow up to that, your opening question there. We didn't actually change the range from $500 million to $600 million. We kept it at $500 million to $700 million, recognizing that the assumptions that Phil was referring to, they can move. So it's quite possible that if we saw some development in the mortgage rules or particularly for the insured market, that might help to accelerate against some of the repayments and lapse rate in the portfolio. So we kept the range of $500 million to $700 million, but we just indicated that there is more of a bias to the lower half of that range.

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

Just lastly, your comments around the potential policy changes around addressing the ceiling cap for house prices or amortization. I think there was a third one that was mentioned. These are all issues that would be considered -- that are under consideration by the Department of Finance or are these areas that the industry, including yourselves, have been advocating towards -- advocating that they should be addressed?

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

It's really more of the latter. I can't speak on behalf of the Department of Finance. I would say that there has been a very strong advocacy in the industry for revisiting, especially the stress test, as well as the 30-year am. I would not say there has been much discussion around the cap. It was raised initially. We have raised it ourselves, because obviously a lot of homes have appreciated beyond the $1 million mark. But I would say that there has already been more of a discussion around the 2, the 30-year am and the stress test, and it's from the industry side at this time.

Operator

Your next comes from Paul Holden of CIBC.

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

So we typically don't talk a lot about lapse in this business, but it has come up a couple of times on the call. So just trying to get a better understanding of how the changing dynamics around lapse may impact premiums earned and earnings themselves.

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

Paul, we don't really see a impact on premiums earned. The premiums earned curve is related to the loss emergence pattern and the borrowers that we're typically going to Refi were not necessarily the borrowers that we're going to go to claim. So really it doesn't change the premium curve. It does impact the persistency of capital.

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

And then couple of follow ups then in terms of capital and the return of capital. Obviously, there is premiums and earnings attached to that capital, but that no longer will be required in able to return. So how do we think about that? Is that kind of lower premiums/lower earnings type of business relative to the capital requirement versus what you are putting on today?

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

I wouldn't say it is any lower premiums business. It typically is going to be borrowers with perhaps lower loan-to-values, because they are the ones that would be able to refinance the soonest. But, I think, typically we see the majority of our new insurance written in the transactional space is in the 95 bucket. So when you count the 90-95 bucket, about 80%-85% of our business has loan-to-values above 90% of the transactional space. So we don't really see it as lower premiums business per se. I think it's just really a persistency of capital item without really any material P&L impact.

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

May I have to follow up on that one. But second question on return of capital. Maybe can you just remind us what the factors are that would determine the timing of that? Is it things like when that capital actually becomes available? Maybe that's more back half loaded and maybe has something to do with the potential change in ownership at the GNW?

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

Yes, I think the factors that really will dictate timing is really the emergence of profitability and the emergence of the seasoning of the older books of business and how they free up capital. I think the last factor you mentioned really is not a consideration in terms of the use of capital. What we will say is that, the return on capital is being generated from both ongoing profitability and the seasoning of the larger 2015-2016 books of business. And as you could appreciate, that takes place during the course of the year. So we would say that the return on capital will be sort of not onetime, but it's more likely to be staged over several quarters and that would certainly argue for -- it will be more backend weighted than frontend weighted.

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

And then final question is related to the GNW and China Oceanwide transaction. According to GNW there is discussions right now with Canadian regulators over data protection requirements. Any early sense on how that might impact MIC and operational procedures and expense ratio, if any impact at all?

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

Paul, its Stuart here, as you know, we can't really comment much on this as it is a transaction between Oceanwide and Genworth Financial. However, as you note and in their press release they did reference the largely focused on data protection aspect of the discussions with the Canadian government. And we've always taken protection of our customer data very seriously and would be very comfortable to support any additional measures to further strengthen that protection. At this point I would say we don't anticipate any impact on our strategies for 2019 or beyond as we've said before. And therefore also no real impact on anything related to expense ratios. It's really about further measures and control as to further strengthen our data protection which we are very comfortable to support.

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

If there were incremental costs associated with that data protection, do you think they would be at the MIC level or is that something that maybe would be absorbed by the majority shareholder level?

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

I really can't comment on that at this point. It is probably premature to discuss that.

Operator

Your next question comes from Jaeme Gloyn of National Bank Financial.

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

The first question, Phil, is around the persistency of the capital and lapse expectations. In previous commentary around guidance for 2020 excess capital, is that -- would it be roughly around similar levels. Is that still the same or do you see this change in lapse experience affecting that guidance?

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

Well, I think, as the further out you go there are lot more factors come into play, including the size of the mortgage insurance market. But I would say that if you assume that mortgage insurance market grows just modestly by inflation, and we would anticipate that the return of capital is not just the 2019 story, the magnitude of it is likely to be perhaps similar to. But that's contingent on our market share progression as well as the size of the portfolio insurance market.

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

So then I guess the bottom line here is that this sort of discussion around lapse isn't affecting that previous guidance for 2020 and beyond?

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

Well, I think in the sense that we see this as a multiyear story, it doesn't impact it. In terms of the quantum of it, that will depend in terms of what we see in terms of new business volumes. That's probably the bigger determinant going forward.

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

In terms of the portfolio insurance product kind of coming in around $1 billion, is that the expectation for quarterly run rate or are you seeing an uptick in demand as sort of highlighted in the MD&A?

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

Jaeme, I would say that that has been the historical run rate as you note. I think we are anticipating that there might be a bit more demand going into 2019 for a couple of reasons. One, some of the innovation that we're bringing into that product, that we discussed at our Investor Day last year, in addition to the fact that there could be just more demand from the lender point of view in terms of their capital needs and other needs. So we are actually going to be looking for a larger number of portfolio insurance this year, TBD on the actual amount. But I do think that $4 billion a year, if you take the run rate, would be the bottom end of our expectation. We'd like to see more than that.

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

So another one for you around the swap income and forgive me if I missed this in the prepared remarks. So if I look at the calculation of where CDOR is versus the $117 million pay fix. That kind of generates a certain level of income and then reported amount seems to be a little bit lower than that. Is that related to the cost of the floors that were input? Is the level that was achieved in Q4 around $7.5 million, is that the base run rate that we should expect in a pretty tight collar, depending on where interest rates move?

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

Yes, I think, Jaeme the $7.5 million there is potential upside from that. I mean -- or swaps, the rates reset at a particular point during the quarter. So as you go into Q1, you are going see some resets that are marginally higher than they were in Q4. If you look at CDOR relative to or locked in rate, there is about a 100 basis points of spread. So in my prepared remarks I noted that we see the potential of $30 million to $40 million of income from the swaps which are up from the $22 million we had in 2018. So we do see some potential upside, inclusive of the cost of the floors.

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

And have you disclosed or discussed the cost of those floors at any point or is that something you can share today?

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

Yes. I think it's disclosed in our financial statements. We can certainly follow up offline, if you would like to. We can point you in the right direction.

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

Two more quickly from me. Just around the anti-money laundering initiatives that the government is pursuing, can you -- maybe you are not clearly not prepared to give us any cost guidance. But can you talk about some of the initiatives that would be incremental to what has been done today that the government is looking at?

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

Jaeme, its Phil. I think we are still evaluating that. There was a discussion paper that they did publish. It's still open -- the consultation period has ended and there are some amendments, but we don't see any material impact. And at this point we'd say it's premature to see what the impact would be on our infrastructure given that we do not directly deal with consumers. So we are continuing to have discussions on what this will mean for the organization, so it's little premature to conclude.

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

And last one for me is around the latest board appointments. Raj clearly looks like he has quite a bit of international experience alongside some risk management experience. So I am just want to focus more on that international experience. Is this something that you saw as a value add to Genworth as a potential opportunity to look to expand beyond the Canadian borders, given the excess capital and potential for deployment elsewhere?

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

Jaeme, its Stuart, there is always some interest in our part to continue to evaluate whether or not we could take our sound model here elsewhere in the world. Obviously, as you know, we can't compete with our major shareholder if they are operating into market already. But I will say that, being a part of the sort of major shareholders, global set of mortgage insurance companies, we definitely benefit from sharing expertise as to what's happening in other markets globally, whether it's Australia, whether it is the U.S. or even India. And I think, you know, adding Raj to our board brings a bunch of that expertise. He is the Chief Risk Officer, as you would've noted for -- for housing risk globally. And I think, you know, there's a tremendous amount of learnings we can take from other markets, you know, both from what went well and what didn't go so well there. And I think we just thrilled to have him on our board for that additional expertise.

Operator

Your next question comes from Geoffrey Dunn of Dowling & Partners. Please go ahead.

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

As you approached the capital management initiatives for 2019, are you still targeting to maintain $100 million to $150 million at the Holdco or can we expect that to drop a little bit below that as you tried -- try to manage down to a more efficient capital ratio?

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

Yeah, I think Geoff, the way we think about it is, you know, what liquidity do we need within the business and with the undrawn credit facility that changes our perspective. So, I would say that we're still targeting maintain holding company cash somewhere around the

$100 million level over the long run. In the fourth quarter, we thought that, you know, our stock price was trading below intrinsic value. So, we took advantage of holding company cash to do a $50 million buyback. But, I would say our plan is to rebuild that towards the $100 million over the course of 2019.

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

And then can you just maybe give a little bit more detail on the loss provision this quarter? I know your commentary indicated some mix shift with Alberta. But obviously a pretty big swing when you look at it on a per notice basis. How should we think about that evolving from here into early 2019? Are you seeing the Alberta mix shift back at all yet, or is this really going to be a very slow adjustment and you're going to see an elevated provision per notice through the majority of the first half of the year?

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

Yeah. Well, I certainly think that we expect the average reserve for delinquency will stay at similar levels to where it is currently. Clearly, there was a softening in the real estate market in Alberta in the second half of 2018 and until we see material improvements there, we expect the number delinquencies coming out of the Alberta will continue to dominate they're about, you know, a third of delinquencies. And if that continues and home prices stay at current levels, the average reserve for delinquencies can be somewhere in the low-70s as it is currently.

Operator

(Operator Instructions) We will now take our next question from Graham Ryding of TD Securities. Please go ahead.

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

No, I'm actually all good. Everything's answered. Thanks.

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

Well, thanks again for joining us today. We do appreciate your time and this concludes our fourth quarter 2018 earnings call. You may now disconnect.