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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Genworth MI Canada Inc. 2019 First Quarter Earnings Conference Call.

(Operator Instructions) I would like to remind everyone that this conference is being recorded today.

I will 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 First Quarter 2019 Earnings Call. Leading today's call are Stuart Levings, our President and Chief Executive Officer; and Philip Mayers, our Chief Financial Officer. We will start with our prepared remarks followed by an open question-and-answer session.

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

As a reminder, our presentation and discussion today contain a disclaimer on forward-looking statements and non-IFRS statements on disclosure. We note that our actual results may differ from statements that we make, which are forward-looking. We advise you to read the cautionary note regarding 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 delivered another quarter of solid results in line with our expectations including a 15% loss ratio and 12% operating return on equity.

For the quarter, we delivered net operating income of $119 million, flat to the prior year period and up 1% over the prior quarter. This generated an operating return on equity of 12% and fully diluted operating earnings per share of $1.35, up 2% over the prior quarter. These results continue to reflect the stability of our earnings platform driven by the seasoning of prior year's premiums written and the sizable contribution from our investment portfolio, together with sound expense management and a gradually normalizing loss ratio as housing markets continue to stabilize.

Our economic growth expectations for this year have recently been lowered by the Bank of Canada. We are encouraged by the ongoing stability in employment and income growth across many regions of the country. This, together with a more stable interest rate outlook, continues to support our view of an estimated full year loss ratio range of 15% to 25% despite the current pressure in Alberta, driven by volatility in oil prices and a softer housing market.

Net premiums written totaled $105 million, down 9% over the prior year period. As discussed on prior calls, transactional insurance volumes have been negatively impacted by affordability pressure driven by elevated house prices, the mortgage rate stress test and higher interest rates. It's important to note that new insurance written in a quarter is largely determined by the level of sales transactions in the prior quarter given the delay between purchasing a house and closing on the transaction.

The decline in transactional insurance volumes relative to the first quarter in the prior year is thus in part a reflection of the pull forward in sales transactions we saw in the fourth quarter of 2017 ahead of the implementation of the B20 mortgage rate stress test.

While the overall housing market continues to moderate, as evidenced by reduced sales volumes and softening prices, particularly in the higher-end segment, the first-time homebuyer space has been more active as buyers compete for lower-priced homes. During the quarter, we saw a modest increase in application volumes and resulting commitments as the spring housing market picked up momentum, which should be positive for new insurance written in the second quarter.

It remains to be seen that this trend will continue throughout the year. Overall, we believe the fundamentals supporting first-time homebuyers remain strong and expect a full year's transactional insurance volumes to be similar to or modestly higher than that of 2018 as borrowers continue to adapt their buying behavior in a more balanced housing market and stable interest rate environment.

We ended the quarter with an estimated MICAT ratio of 172%, 7 points above the upper end of our targeted operating range. As noted last quarter, redeployment of excess capital is an active part of our strategy this year as we look to improve our capital efficiency. The timing and manner of capital redeployment will depend on factors including market conditions, share price and the availability of other strategic opportunities for business diversification. We expect excess capital to build throughout the year as our in-force portfolio continues to season and the business generates earnings.

That said, we are unlikely to return excess capital in equal quarterly amounts, particularly in light of the seasonal nature of new insurance written and its corresponding demand on capital. Based on our assessment of the outlook for portfolio insurance demand along with some potential upside in the size of the transactional insurance market, we opted to retain some excess capital in the first quarter.

As discussed during our last earnings call, we continue to monitor market size expectations, in-force portfolio lapse rates and business mix to inform our expectations around our future capital needs and the level of excess capital available for redeployment.

Based on our latest expectations, we have revised our range downwards to $400 million to $550 million for the year. Phil will discuss our capital redeployment strategy in more detail during his prepared remarks.

On March 19, 2019, the government of Canada introduced in its budget the First-Time Homebuyer Incentive Program. Under this program, eligible first-time homebuyers who have the minimum down payment for an insured mortgage, will be able to apply to finance a portion of their home purchase through a shared equity mortgage of 5% for an existing home or 10% for a newly constructed home. The buyer would repay this incentive to the government at the time the property is sold or refinanced. The details of this program are still being finalized by the government with the view to launching it by September this year.

In the interim, we have confirmed that Genworth Canada-insured mortgages will be eligible to participate in the program on the same basis as mortgages insured by the other two insurers. In addition, we are participating in consultations with the government and other stakeholders to provide input on the details of this program. At this stage, however, it is too early to determine the potential impact of this announcement on the market or its ultimate outcome for first-time homebuyers.

Our book value at $46.60 per share continues to grow, up 6% over the prior year period, driven by ongoing profitability and share repurchases in the prior year. As part of our ongoing strategy to maintain capital efficiency and consistent with the prior year, we once again took steps to renew our Normal Course Issuer Bid program. This allows us the flexibility to purchase shares in the open market over the next 12 months.

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. Our first quarter financial results continue to highlight the strength of our operating model with net operating income of $119 million, up by $2 million from the fourth quarter primarily due to lower losses on claims.

Premiums earned were flat sequentially at $169 million, but were down by $2 million versus the prior year period. This modest decrease primarily reflects the relatively lower levels of premiums written in 2017 and 2018, as compared to the preceding years.

During the quarter, losses and claims were lower sequentially by $5 million and $25 million, resulting in a loss ratio of 15%. The lower losses on claims quarter-over-quarter were driven by a decrease in the average reserve per delinquency and modestly higher favorable reserve development. This was partly offset by an increase of 79 in the number of new delinquencies, net of cures, primarily due to seasonal increases in Ontario and the Atlantic region and continued economic pressure in Alberta, partly offset by a decrease in Québec. In total, the number of outstanding delinquencies increased by 2% year-over-year and the overall delinquency rate was modestly higher sequentially at 20 basis points, reflecting the strong employment picture in most regions.

Expenses of $33 million were modestly higher than the prior quarter as a resulting expense ratio of 20% remained consistent with management's expected range of 18% to 20%. Operating investment income was flat sequentially at $57 million on an investment portfolio of $6.5 billion. Overall, we generated a solid operating return on equity of 12% and a fully diluted operating EPS of $1.35. We are pleased with these financial results and the resulting 6% year-over-year increase in book value per share to $46.60.

Turning to underwriting performance. We delivered strong underwriting income in the first quarter with the combined ratio of 35%. As previously noted, premiums earned were down year-over-year and are expected to be flat to modestly lower over the course of 2019. While we're encouraged by the relatively low loss ratio of 15% this quarter, as Stuart noted, our expected loss ratio range for 2019 is unchanged at 15% to 25%. This reflects the expected normalization from the relatively low levels experienced over the past three years.

In turn, this should contribute to a solid combined ratio for 2019 while total underwriting income may be modestly lower, driven primarily by the normalization of our loss ratio.

On the investments front, our $6.5 billion investment portfolio continues to be of a high credit quality with a pretax equivalent book yield of 3.2%. Interest rates have trended lower over the course of the first quarter leading to an improvement of $96 million in the overall market value of our investments and derivatives since year-end.

On the other hand, new money yields and realized income from our interest rate hedging program will be lower than originally expected for the remainder of 2019 as a result of these lower interest rates. Overall, we now expect operating investment income to be flat to modestly higher for the full year as compared to 2018.

On the capital front, we transitioned to the 2019 Mortgage Insurer Capital Adequacy Test or MICAT, a revised version of the Minimum Capital Test introduced in 2017. Overall, the use of credit scores at origination for all books of business rather than the previous requirement to update credit scores for 2015 and prior books has more than offset the 5% increase in the total asset requirement for insurance risk. This net positive impact in the first quarter in turn contributed to a meaningful decrease in the transitional benefits under the 2019 MICAT framework.

These transitional benefits are expected to fully runoff by the end of the second quarter. Collectively, the net result was a flat MICAT ratio of 172% as compared to a similar MCT ratio of 172% at the end of 2018. Lapse rates were generally in line with those in the first quarter of 2018 while lower than those in 2017 and 2016.

As Stuart noted, we're encouraged with the year-over-year growth in our transactional commitment volume as well as the potential for increased levels of portfolio insurance for the remainder of the year. As a result of the potential growth and the previously noted transitional benefit under MICAT, we did not redeploy capital in the first quarter. If our MICAT ratio stands at 7 points above the top end of the desired operating range of 160% to 165%, we anticipate commencing the redeployment of capital in the second quarter. As a reminder, we expect our ongoing profitability, and ageing of the larger 2016 and prior books to contribute to capital generation in excess of organic growth needs.

That said, we have revised the range of expected capital redeployment to $400 million to $550 million over and above our ordinary dividends in order to accommodate the anticipated higher capital levels associated with growth and the previously identified trend of lower lapse rates.

We have solid financial flexibility with holding company cash and liquid investments of $87 million, a $300 million undrawn credit facility and low leverage of 10%. With $275 million of debt matured in June 2020, we are evaluating refinancing options including issuing new debt in 2019 given the current attractive interest rate environment. To this end, we recently commenced the process of obtaining bondholder consent to increase the maximum size of our April 2024 public debt tranche from $160 million to $300 million.

As a reminder, this was originally a 10-year public debenture maturing in 2024. Our intention is to issue $75 million to $100 million of incremental debt through the reopening of this tranche with the proceeds being used to early retire a similar amount of the debt that matures in June 2020. We believe this leverage-neutral action is prudent and will allow us to appropriately stagger our debt maturities.

In closing, our first quarter financial results confirm that our business model remains strong. 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. Looking ahead in 2019, our strategy remains focused on prudent risk management while investing in our leading-edge technology to drive a best-in-class customer service experience.

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

QUESTIONS AND ANSWERS

Operator

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

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

My first question was -- just curious if how -- I guess how much time you spend looking at other countries that you might look to expand into? I know you can't compete against any other countries that Genworth Financial currently operates in, but just wondering if there's anything that looks kind of potentially interesting to you as something that we might see down the road.

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

Geoff, it's Stuart here. I'd say at this point given where the major shareholder has mortgage insurance operations, it doesn't really leave any other countries of interest to us at this point. So I would say we spend very little time thinking about that. We're mostly focused on our domestic business here and how we can grow that business.

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

Okay. And then just my other question was, is there any updates on the, I guess, exploration that you have of potentially insuring mortgages outside of the government -- I'm sorry, government-backed insurance framework?

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

Yes. We're absolutely continuing to look at that and I think it's an interesting area. We're making good progress on that. But as we have said before, it is something that will take some time as it does require another regulatory approval and it does require some pre-work to -- before coming to market. But we are still looking on that and we're encouraged by what we see. And I think as we've indicated before, that probably looks like a late 2019 or a 2020 initiative.

Operator

Your next question will come from Graham Ryding with TD Securities.

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

Just with the capital available to be redeployed. You highlighted 2 factors that were behind reducing it slightly, lower lapse trends and potentially higher transactional volumes. Did one of those factors have more of an influence over the other or was it equal between the 2?

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

Well, it's mostly tilted towards the market size expectations. And what we're doing here is, on the one hand, we're being a little bit cautious on the lapse rates. We have seen a trend downwards, as you said, prior. The Q1 lapse rate was more or less stable to the Q1 2018 lapse rate. But there is some seasonality in lapse rates and we're being cautious as to where it might trend in the rest of the year. But the majority of the reason for our revised range is really on the expectation that we're seeing some very positive signs from a transactional insurance market point of view. And at the same time, we've actually seen some renewed interest in portfolio insurance from big banks, which we haven't seen in some time and clearly that could drive additional capital required as well. So that's really I would say the majority of the reasons for the revised range.

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

Okay. That's helpful. And on the transactional side, is it in reference to the potential impact from this federal budget initiative around first-time homebuyers? Or is it sort of higher commitments coming out of Q1? Like where are you getting the -- I guess the sort of may be optimism from higher transactional volume?

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

Right. So I would say, first of all, it's got nothing to do with announced first-time homebuyer incentive. At this point, we really have too little information to work on an assumption about how that would impact the market, but it does have to do with the level of commitments we saw in the first quarter. And also taking into account the fact that there is probably very little chance interest rates go up now this year. Housing markets are definitely acting in a more balanced manner. So we think there's -- we've always said there's pent-up demand on the sidelines as it relates to first-time homebuyers and we think that, that's starting to come out a little bit into the market. So the optimism is based on what we've seen in the first quarter plus our expectation of how the mortgage market will look for the rest of the year.

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

Okay. That's helpful. And then my last one, if I could. Just you talked in the past about some innovation in the portfolio insurance side. Any update there? And where are you getting the, I guess, the sort of renewed interest for portfolio insurance? Because I guess it wasn't evident in the quarter, so maybe some color there.

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

Yes. I would say some inbound inquiries where we've not had that in the past year given the way that the portfolio insurance products had evolved. But for the first quarter, we definitely had more interest inbound inquiries, as I said, discussions with a number of lenders and I think we would say there's more likelihood of big bank portfolio transactions in the remainder of the year.

Operator

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

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

Yes. Just a follow-up on the capital redeployment. Just simply by my math here, it looks like the thing could add 150 to 200 basis points to your ROE if you did an SIB or a special dividend. Have you been thinking through some of the potential uses of deploying the excess capital? And maybe you can list out some of them for us, please.

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

Yes. Absolutely, Tom. And I think as you saw, we did renew our NCIB and that was intentional to not only just maintain that on an ongoing basis, but also to create the most immediate access to repurchasing our shares. And so we do look at share buybacks as an obvious avenue of capital redeployment provided we're trading at a level that we think is sensible to be buying back shares.

At the same time, we will also consider special dividends in the event that there is a need to go beyond what we could do through an NCIB, the special becomes a play and then as you noted, an SIB, under the right circumstances, will be something we would consider as well.

So I think what we are saying is we're keeping our options open on this. There is still a fair bit of year ahead of us and we do want to watch what happens in the market, but we are still looking at some pretty significant amounts of capital to redeploy. Certainly, --well beyond what we could do through an NCIB and we will therefore be looking at those other 2 options that you and I both just talked about.

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

And assuming that becomes sort of a second half of 2019 event, I'm wondering what your general run rate would be going forward in terms of capital free-up, like, what would the dollar amount on an annual basis be? Just of capital free-up on a normal business cycle.

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

It's going to be much the same as what we're seeing in this year. The capital excess story that we've been talking about now for some time is really not a one-year event. It's going to take a couple of years as we transition into this new normal, if you will, where the much larger order books have seasoned off and the capital from those books get freed up.

So I would say that the run rate -- we don't really see a significant shift in that run rate over the next couple of years. I think you can expect to see similar type of pace over the next couple of years.

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

So that would mean in 2020, even if you did everything you wanted to do in 2019 and 2020, we could have another $400 million to $550 million in capital free-up event in that year as well? Is that what you're suggesting?

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

I'm going to say that we'll give more clarity on that towards the end of this year, but I would say, in and around that range, ballpark-ish. We don't typically give guidance out beyond the current year, but given what I'm saying, if it's on a similar pace, you can expect it to be more or less in the same range.

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Operator

(Operator Instructions) We'll now take our next question from Paul Holden with CIBC.

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

I want to ask a few questions related to provincial delinquency trends. So first one will be I guess related to Québec, where you saw some improvement year-over-year, but I noticed in your slide deck that may be the outlook -- the economic outlook has deteriorated a little bit at least versus what could have a few months ago. So maybe you can speak to what's your expectation regarding Québec would be in that context? And what you would view as a normalized delinquency rate in that province?

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

Paul, it's Phil. I mean certainly, we've seen the improvement in Québec. And as we've noted in the past, the housing market has rebounded in Québec, employment picture has improved dramatically in Québec.

So while we're advancing from that and as we've noted, we expect overall normalization on our loss ratio. Québec net -- new delinquencies net of cures were very low this quarter. I think that's a little bit as a catch up and I think you'd expect to go back to a level more consistent with the second and third quarters of last year.

So I think we're going to see some of that. But to the extent that home prices continue to be stable in Québec, that will not translate into a material shift in losses, but you will expect to see higher delinquencies coming out of Québec.

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

Okay. So your base expectation is kind of flat to higher is what you're saying?

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

I would say flat to modestly higher.

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

Yes. Okay. Okay. That's helpful. And then also want to ask about Ontario. It sustained persistently at very extreme low levels, 7 basis points. So how do we think about that 7 basis points other than the obvious, it's not a sustainable number, but how does that, like what's the path to normalization in Ontario, in your mind?

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

I think the thing to remember is employment is probably the bigger driver of delinquencies. And to the extent that we continue to see strong employment in Ontario, we don't anticipate a material shift in that delinquency rate in the near term.

And as Stuart noted, our loss ratio range of 15% to 25%, it would take a material, abrupt shift in the economic environment for us to see a material increase in the loss ratio up towards the high end of our range of 15% to 25%.

And as of now, all of the forecasts seem to indicate that the employment picture is going to be relatively stable in Ontario. So we don't anticipate any material shifts in Ontario.

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

Okay. And then given that, is there some kind of structural or cultural differences then that would explain a persistent gap in delinquency between Ontario and Québec?

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

Well, I think certainly, one has to look at the economic diversification within the province. And there if you look at the unemployment rate, they do differ by region. And I think the important thing is really not so much the absolute level, but it's really the change in unemployment. So I think all of my Québec comments were really related to the potential that we don't see a material change. The absolute level being lower is going to have an impact, but that impact is not as significant as the impact that's driven by the change.

So yes, Ontario has benefited from both home price appreciation and the decline in unemployment rate. Québec is only recently in the last 12 to 24 months, benefited from home price appreciation.

So I think the Ontario lower delinquency rate is somewhat driven by the fact that the effective loan to value in that province has come down dramatically on older books of business and there are fewer books of business in Ontario that would be exposed from a delinquency perspective as compared to Québec.

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

Perfect. That makes sense. And then final question I guess somewhere on the line of questioning on Alberta. Just given your delinquency rates, they're already a little bit higher there than some of the other provinces we already talked about, but it sounds like they're expected to continue to tick higher and that's mostly based on the energy outlook where your current year's slide deck, again, a little bit more, maybe negative versus where you were a few months ago.

So I guess the key call there is really going to continue to be the energy markets. Is that correct or maybe we can get a little bit more positive given the changing government there?

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

Yes, Paul. It's Stuart here. I think the outlook from our end is that it remains much as same as it is now for a little while still before it gets better. And I think to your point, there is change in that province. There is the expectation that there'll be a lot more focus on trying to get more momentum in the energy sector. And I think there's also a big push to get diversification in that province. So ultimately, our view as far as how we see our loss ratio normalizing, is sort of persistent levels of delinquency that we see now in Alberta for a while, ongoing strength in Québec and Atlantic and a gradually normalizing loss level in Ontario and BC and really on the back of the unemployment rate, which probably won't be sustained at the very low level than it is now.

So putt all those together and you've got a loss ratio that gradually moves towards that 20% over time. And that's kind of our basic outlook. So Alberta, yes, we're not expecting to get a lot worse than it is right now, but it is going to take a while before it gets much better than it is right now.

Operator

(Operator Instructions) We will take our next question from Jaeme Gloyn with National Bank Financial.

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

Yes. We'll try this again. First question is related to the swap income. I'm wondering if you can refresh me here, just remind me, what is the bare minimum level of investment income that you would generate from the interest rate hedging program? Let's just say if rates went to 0% for example.

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

Jaeme, it's Phil. I mean what we've done is we've got floors in on the majority of our interest rate swap portfolio and currently those floors are 1.85%. So that would generally generate income between -- around $20 million a year if rates drop below 1.85%.

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

Okay. So basically there. Yes. And then thinking a little bit further out given where rates are today, are you looking at extending the interest rate hedging program further out past 2021 and 2022?

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

It's almost an active part of our evaluation. We continue to look at it. We believe it's appropriate to hedge a portion of our interest rate risk. So that's an ongoing evaluation. Obviously, we sort of look at the market's expectations, we look at the cost factor, we look at the capital impact and all those considerations go into our final decisions. But I would say the interest rate hedging is likely to be a part of our ongoing capital management activities.

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

Excellent. Okay. Just going through the lapse rates then. Is it too early with this quarter to I guess gain comfort around where lapse rates are going to settle in? Or are you starting to get that sense of lapse rates sort of have moved based on where rates were on B-20 that you're not going to see another sort of step down in lapse rates?

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

So far, Q1 2019 was consistent with Q1 2018. As I said that there's always a seasonal factor related to lapse rates. So we will be cautious around lapse rates. And we continue to monitor it. And I would say that our revised capital redeployment range reflects a degree of caution on our part.

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

Okay. Great. And I just want to ask, this might be a little bit of a nitpicky type question. But I'm looking at delinquency rates by year of policy origination and I'm seeing there's still a little bit more of an uptake in the '11, '13 and '14 vintages relative to the others. Is there anything specific in those policies there that you would identify that's driving a higher increase? This is year-over-year in delinquency rates versus, let's say, older vintages even?

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

I would say, no. What you're picking up there is just the Alberta impact where the slowdown in Alberta really has a ripple impact because they have not -- those older books have not benefited from home price appreciation in Alberta. They stay exposed from a delinquency perspective longer than in other regions.

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

Okay. And I guess there would have been just outsized origination in those years perhaps in Alberta that's driving that uptick.

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

Well, I think because it's based on the outstanding balance, the balances in regions outside of Alberta have decreased dramatically. So the Alberta composition of that book is going to be higher and therefore, it will be a little more sensitive as a result of that. I don't think the Alberta books were necessarily outsized at origination as proportion of the outstanding balances, they're certainly a higher proportion than they were originally.

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

Okay. That's a fair comment. And the last one for me and forgive me if you had addressed this in the opening remarks. But just some commentary around market share. Do you feel that the decline in premiums written and activity, is that a market-wide issue? Or do you -- was there any potential for Genworth to pick up any share during the quarter? Some commentary around that.

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

Jaeme, the level of premiums written in the quarter was really a reflection of what happened if you go back a year in Q1 of 2018. There was a very big drop in the volume that we saw because there was significant pull forward actually into 2017 -- last quarter, 2017 ahead of the B20 stress test announcement. So it really is a timing effect driven by regulatory change. Our optimism, if u will, for this year comes from what we saw in the level of applications regarding the first quarter, which then resulted in any commitments. And those were definitely higher year-over-year, modestly higher. And I think that bodes well in terms of what we might see from a premium written level in the second quarter and also suggest to us that from a market size point of view overall, the first-time homebuyer space is not necessarily seeing the same level of pressure that the overall market is seeing in terms of reduced sales, et cetera.

And that's because that is skewed more to the higher end price range. The first-time buyers space probably is seeing a bit more of that pent-up demand coming into play, especially as rates aren't going up anymore. First-time buyers have had the stress test for their particular space going back to 2017 already. So they become more used to it. And there's been good income growth. So I think we're seeing some more robust activity in the first-time buyer space overall on a market share level. And we're still in that 33% range, it's hard to get exact numbers because we're still waiting on our major competitors numbers for the 2018 year. But at this point, we expect that we can continue to focus on our goal of growing market share by roughly 1 point a year, and we have seen some encouraging signs from some of our lenders.

It is, as I've always said, a long sales cycle. This is not the kind of business where you see big swings in market share in short periods of time. We're optimistic as to what 2019 looks like.

Operator

Next question comes from Graham Ryding with TD Securities.

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

2 quick ones. First one, lapse rate. What's the reasons or the reason for, you think, for a lower lapse rate over last year a bit?

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

Well, the lapse rate is really a function of how quickly and easily people are able to refinance mostly. And if they're -- if they've been seeing tremendous house price appreciation, that's certainly going to help people to refinance and take out equity to do a renovation or buy a second property, which would take them off risk and become a full lapse for us.

In a higher interest rate environment and a slower house price appreciation environment, you're going to see less of that. And that's what we think is the principal driver of the slower lapses.

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

That makes sense. And just with the pending deal with your -- the majority shareholder in China Oceanwide, Canadian regulatory approval seems to be the last key hurdle. Have you been involved in that process? And is there anything you can share with in terms of what the regulators here are looking at? Who's involved and maybe where they're at in that review process?

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

Well, there has certainly been a lot of activity on that area. As you know, Canada is the outstanding approval. We are involved to the extent that it necessarily involves our business. However, I don't think I can add anything to what's already been said publicly about it. The majority shareholder has made their submissions to the Canadian government and they are continuing to work with them as the Canadian government does its due diligence on the deal.

At this point, I personally cannot give any more information on that, Graham.

Well, thanks again for joining us today. Oh, sorry, is there one more question?

Operator

There are no further questions at this time. I will turn the call back to Mr. Levings.

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

All right. Thank you. And again, thanks to everyone for joining us today. We do appreciate your time and this concludes our first quarter 2019 earnings call.

Operator

That concludes today's presentation. Thank you for your participation. You may now disconnect.