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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 Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. (Operator Instructions) I would like to remind everyone that this conference call 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 Second 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 where a 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, John. Good morning, and thanks for joining our call. We are pleased with our solid performance this quarter, including a 15% loss ratio and a 12% operating return on equity. As noted in the prior quarter, we are encouraged by the pickup in first-time homebuyer activity, which drove strong momentum in our premiums written this quarter. In line with our focus on capital efficiency, we also returned approximately $100 million to shareholders in the form of share buybacks and a special dividend.

For the quarter, we delivered net operating income of $120 million, up 2% over the prior year period and 1% over the prior quarter. This resulted in fully diluted operating earnings per share of $1.38, up 5% over the prior year period and 2% over the prior quarter. Once again, these results reflect ongoing seasoning of our portfolio, together with a strong combined ratio as losses on claims remain stable in a strong labour and more balanced housing market.

Our economic growth expectations for this year remained relatively subdued, notwithstanding a recently announced modest improvement in the outlook from the Bank of Canada. We are encouraged by the persistent strength in employment and income growth across many regions of the country. This, together with a more positive outlook on housing activity, continues to support our view of an estimated full year loss ratio range of 15% to 25%, with a bias towards the lower half, despite the current pressure in Alberta driven by volatility in oil prices and a softer housing market.

Net premiums written totaled $195 million, up 14% over the prior year period. This increase was largely due to the momentum we saw in the level of high ratio mortgage insurance applications during the spring market, together with a portfolio insurance transaction, one of our bank customers that closed during the quarter. Transactional insurance volumes have been negatively impacted by affordability pressure over the past few years, driven by elevated house prices, the mortgage rate stress test and higher interest rates. That said, as noted during our first quarter earnings call, we are seeing an increase in first-time homebuyer activity as buyers compete for entry-level homes in a more rational marketplace.

During the second quarter, we saw a continuation of this trend, with year-over-year growth in application volumes and resulting commitments. Provided this trend continues, we should see a positive impact on new insurance written in the second half of the year. On July 19th, the Bank of Canada lowered the qualifying mortgage rate for the insured mortgage stress test by 15 basis points, the first downward movement since the introduction of this test in late 2016. This change should be modestly positive for first-time homebuyer affordability. Overall, we believe the fundamentals supporting first-time homebuyers remain strong, and based on the trends observed year-to-date, we expect a full year's transactional insurance volumes to be modestly higher than that of 2018, as borrowers continue to adapt their buying behavior in a more balanced housing market and favorable interest rate environment.

We ended the quarter with an estimated MICAT ratio of 169%, 4 points above the upper end of our targeted operating range. Redeployment of excess capital is an active part of our strategy as we focus on capital efficiency. We continue to monitor market size expectations, enforce portfolio lapse rates and business mix to inform our expectations around future capital needs. Based on our current expectations, we are maintaining our view of a full year excess capital range of $400 million to $550 million, including the capital returned in the quarter.

We continue to dialogue with the government on the previously announced First-time Home Buyer Incentive Program. The details of this program are still being finalized with a view to launching in September this year. As a reminder, we have confirmed that Genworth Canada insured mortgages will be eligible to participate in the program on the same basis as the other two insurers. We remain active in the ongoing consultation with the government and other stakeholders as they work towards finalizing the program. In our view, it is still too early to determine the potential impact on the market or its ultimate outcome for first-time homebuyers.

Our book value at $47.17 per share continues to grow, up 6% over the prior year period, driven by ongoing profitability and share repurchases.

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 second quarter financial results continue to highlight the strength of our business model, with net operating income of $120 million, up modestly by $1 million from the first quarter. We're pleased by the growth in our transactional new insurance written, as well as the increased levels of portfolio insurance this quarter, resulting in total premiums written of $195 million.

Premiums earned were flat quarter-over-quarter at $169 million and lower by $2 million year-over-year. This modest decrease primarily reflects the lower level of premiums written in 2017 and 2018, as compared to the preceding years. Losses on claims of $26 million and the result in loss ratio of 15% were essentially flat sequentially. While the average reserve per delinquency increased as a result of a higher proportion of Alberta delinquencies, this was offset by a significant decrease in the number of new delinquencies, net of cures. Net new delinquencies decreased by 124 quarter-over-quarter to 281, primarily due to decreases in Ontario and Quebec, partially offset by a modest increase in Alberta. In total, the number of outstanding delinquencies decreased by 2% year-over-year, and the delinquency rate was essentially flat sequentially at 19 basis points, reflecting the strong employment picture in most regions.

We continue to see stable economic conditions in Quebec, Ontario and British Columbia with some continued softness in Alberta and the Prairies. Expenses of $34 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 of $56 million was $1 million lower than the prior quarter. This small decrease was attributable to lower income from our interest rate hedging program due to lower rate, partially offset by higher interest and dividend income from modestly larger invested asset base.

Overall, we generated an operating return on equity of 12%, consistent with the prior quarter and a fully diluted operating EPS of $1.38. We are pleased with these financial results and the resulting 6% year-over-year increase in book value per share to $47.17.

Turning to underwriting performance. We continued to deliver strong underwriting income in the second quarter with a 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. We expect the generally stable economic environment to persist for the remainder of the year. That being the case, our expected loss ratio range for 2019 remains unchanged at 15% to 25%, with a bias towards the lower range, as Stuart noted. In total, underwriting income for the full year may be modestly lower as compared with 2018.

Our $6.5 billion investment portfolio continues to be of a high credit quality, with a current pretax equivalent book yield of 3.2%. The asset mix is largely unchanged as we continue to prioritize asset quality in a relatively short duration. While the forward curve explains the possibility of lower interest rates in the second half of the year, we expect operating investment income to be flat to modestly higher for 2019, including the realized income from the interest rate hedging program in the range of $20 million to $30 million for the full year.

On the capital front, our MICAT ratio of 169% is 4 percentage points above our desired operating range of 160% to 165%. In the second quarter, lapse rates were modestly lower than those in the second quarter of 2018, which was generally in line with our expectations. As anticipated, we commenced the redeployment of capital in the second quarter and returned $69 million via share repurchases and $34 million in the form of a special dividend. As a reminder, we expect our ongoing profitability and the aging of the larger 2016 and prior books to contribute to capital generation in excess of organic growth needs. To this end, we have maintained our range of expected capital redeployment of $400 million to $550 million over and above our ordinary dividends for the full year.

Our financial flexibility remains strong with holding company cash and liquid investments of $95 million, a $300 million undrawn credit facility and low leverage of 10%. We took the opportunity in May to refinance the portion of our debt maturing in June 2020, given the favorable market conditions. This involves reopening our 2024 public debt tranche and issuing $100 million of incremental senior notes at an effective interest rate of 3.48%. We then used the proceeds to early retire a similar amount of our 5.68% senior note scheduled to mature in June 2020. With this leverage-neutral action, next year's debt maturity is now only $175 million, so we have a number of available options to refinance it. We're encouraged by strong investor appetite for our public debt securities, underpinned by our strong business performance and solid credit rating.

In closing, our second quarter results confirm that our operating model remains sound. I'll now turn the call back to Stuart to conclude our prepared remarks. Stuart?

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

Reflecting on the announcement earlier this month by our major shareholder, wherein they communicated that they are exploring the potential sale of their interest in our business for other strategic alternatives, it's important to note that the business has been preparing for this potential scenario, including plans to replace any shared services. That said, we remain focused on our key strategic priorities, including prudent growth, risk management, capital efficiency and investing in technology to drive improvements in our customer service experience.

Our Board of Directors and the special committee of independent directors is monitoring the process and will engage with Genworth Financial and other parties as necessary. In summary, we are pleased with the quarter's results, and note that this quarter marks our 10th year as a public company. We're very proud of our track record of creating shareholder value over the past decade. I'd like to take this opportunity to thank our employees, customers and shareholders for all their support and look forward to creating more value as we continue to execute on our strategic priorities in the years to come.

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) And your first question comes from Tom MacKinnon with BMO Capital.

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

Yes, 2 questions here. One, an easy one, probably. Have you seen any kind of market share gains? I know that you've got a pretty good growth in the transactional business in the quarter, so maybe you can elaborate what's going or have you been able to take any kind of share from what you can gather. And I have a follow-up.

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

Tom, it's Stuart here. And I think the majority of that increase in our transaction NIW was definitely driven by the market. We are absolutely seeing more first-time homebuyers come back out. I think the more stable interest rate environment, the fact that there has been some good income growth, employment is still strong, et cetera, is definitely driving confidence and just the fact that the housing market is more rational means they can actually have a shot at being successful in executing on a deal. There has been some shifts in market share, absolutely. Market share tends to be a little bit seasonal from quarter-to-quarter, but we're still estimating our sales in that 33% to 34% range. But we have seen some nice wins within our customer base. So we are still encouraged by our ability to grow market share and, of course, are still targeting additional growth over the next couple of years.

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

And have you had any kind of discussions with the parent with respect to their July 2nd press release that they've put out? To what extent have you been involved in any of these discussions that they've been -- noted that they've been having since that announcement?

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

Well, certainly, we've been involved, Tom. I mean to the extent that there have been inbound inquiries and expressions of interest. We've certainly been working with them in order to facilitate any appropriate data sharing and further information under, of course, appropriate NDA. So that will probably continue as we go through this process. But as you would imagine, there is definitely some work to be done in terms of helping potential bidders get to fully understand the business.

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

And has that -- has that been heavy traffic of late? Or just in terms of the flow of that?

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

I would say we've been pretty busy through the course of July.

Operator

And our next question comes from Jaeme Gloyn with National Bank Financial.

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

First question is on the, I guess, on the transaction as well. I'm just curious if you can update us with your estimate of potential deployable capital to repurchase shares from the parent company at, let's say, the end of November, at the end of this year.

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

I would say, it really comes down to how this process unfolds. I think we've always said that to the extent that there is an opportunity to repurchase shares from the major shareholder, we would do so. But that will be a function of the path of this transaction -- potential transaction takes. In the meantime, we are still focused on capital efficiency and we will continue to monitor both our needs, but also options for redeploying. And as you saw in the second quarter, you'll likely see a combination of share buybacks and specials into the second half of the year. But absolutely, if there is an opportunity, we would like to take advantage of that. We do have excess capital for that purpose.

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

Okay. So I just want to clarify that, like the intention here. The intention here isn't to slow down the pace of capital return to shareholders as a result of the transaction or in waiting for the transaction to resolve?

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

No, I mean, we would continue to monitor as we have. And frankly, the third quarter tends to be our largest NIW quarters, so there will be a bigger draw on capital required. And obviously, we're going to be watching that. We also recognize that there could be some additional requests for portfolio insurance, particularly as the banks approach their year-end in the fall. But outside of that, normal monitoring and normal focus on redeployment of capital.

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

Okay. And last one on this topic. Given the inbound, the inbounds you have on the transaction and the tone of your commentary, is it fair to characterize this as a done deal that Genworth or that the GNW will sell its stake and that the regulators here in Canada will just -- they may not approve this in a soon enough time. Is that your feeling around the entire situation?

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

Jaeme, really, I probably can't comment on whether or not Genworth will sell its stake. I think they have indicated there is interest in potentially selling that stake, but it will obviously depend on how they feel about the interest that comes along. At this point, our focus is really just on facilitating the necessary process, as I mentioned before, on the due diligence side to the extent that there is interest. But beyond that, we can't really comment on that.

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

Okay. Fair enough. Turning to the performance in the quarter. I just wanted to get an update on lapse. It's been an issue over the last couple of quarters. I'm just looking for an update on how that's trending relative to the last few quarters.

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

Jaeme, well, as I noted in my remarks, we're certainly seeing a lower level of lapses as compared to 2018. But that's not unexpected given that rates generally are higher than they were a year ago. Having said that, the lapse trends are consistent with our revised expectations and consistent with our $400 million to $550 million of redeployable capital for the full year. So yes, they're lower, but staying within the range of our revised estimates at this time.

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

And if you're looking back at the history of when we see mortgage rates and interest rates move lower, would you expect on -- based on where these interest rates and mortgage rates are moving towards that, that will trend even lower and be a potential upside to the current estimates?

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

I think it's premature. I think we may have seen mortgage rates come off, but they're still at levels that are still higher than a year ago. So as a result of that, we're not optimistic that we'll see a reversal of the lapse trend and see it return to levels that we saw in 2017. So I think we're planning prudently, appropriately, I think, and I think we're maintaining the $400 million to $550 million range, accordingly.

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

And last one for me, just want to get a little bit more color around the BC market or I guess, Vancouver, in particular. Wondering if you can just provide us a little bit of an update on what you're seeing there in terms of reserving profile, loss and delinquency, sort of leading indicators. A little bit more color on that market.

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

Yes. I would say that the Vancouver market overall, while you've seen more house price depreciation there, has certainly been focused more on the higher end segment of that market. So from an actual loss performance in our portfolio, I would say, it's doing very well still. The real pressure point is still Alberta. And that's really the only area of the country right now that is, I would say, driving losses. Almost everywhere else, losses tend to be very low, and we're very comfortable with what we're seeing. Alberta in itself, I feel, is on a path to recovery. It's going to be a slow recovery, but there's definitely some evidence of improving business activity and confidence level. The sales listings ratios in both Calgary and Edmonton are more balanced now. The expectations from the majority of economists is that growth will improve into 2020. And that will eventually help to bring those losses down more in line with our expectations.

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

Okay, great. And last one for me is just around tapping the debt markets, as you've done recently. Can you just refresh us on the strategy to access that markets to potentially increase leverage to that sort of 15% range? What are you thinking around timing, conditions? And then does the growth of the transactional market impact, how you were thinking about that previously?

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

Yes. Jaeme, it's Phil again. When you think about leverages, while the target is 15%, in the near term, with the potential of a transaction, we think it's appropriate for us to maintain current leverage until there is clarity. Because I think from the debt markets perspective, they would appreciate clarity of that. We believe clarity will then open up more opportunities for us. Today, the debt market has had limited appetite for an increase in leverage and a return to shareholders. And I think that is in the current state, but we believe that once there is long-term clarity in terms of structure, the ownership structure, that there may be additional opportunities.

The other thing that we really charge is the staggered debt maturity, and we have a 2024 maturity now to 2020. And we're very conscious that we don't want to have back-to-back maturities. So any actions we take with the debt markets would be with maintaining an appropriate stagger in mind. So those are the considerations that we think about as we think about long-term leverage and ultimately moving towards 15%. The third consideration is, as we return capital and our equity potentially may decline over time, that naturally raises your leverage ratio. So we're also taking that into consideration. But we believe we have more than ample amount of capital being generated by organic capital generation to fund the top line. And we think we can fund increases in market share and still have capital in excess for redeployment.

Operator

(Operator Instructions) Our next question comes from Graham Ryding with TD Securities.

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

My first question would just be on the -- your capital plans. Does the situation with Genworth U.S. look into potentially dispose its stake in your business? Does that impact your capital plans at all over the near term? Like does it make sense to keep powder dry over the next few months, in case it's needed to help facilitate any deal?

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

Graham, I would say that, as I was saying earlier, the monitoring process naturally facilitates that because we would not necessarily look to redeploy capital early in this third quarter. Recognizing that it is the largest NIW quarter, we need to have a better handle on how much we will see and, therefore, how much we need before we could make a decision on that. And I think that we will find probably the clarity along in the process will help drive that decision in any event before we get to the end of the third quarter. So I don't see that as a problem and I wouldn't be saying that we're actively going to hold back until we have more clarity. I think those two will happen naturally together.

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

Okay. All right. That makes sense. Your portfolio insurance volumes picked up, but there was also a lower yield associated with that. Can you just give us a little bit of color on what's exactly driving that? And your -- and what is your expectation for portfolio volumes for the rest of the year?

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

Certainly, Graham. As we noted, we did see a $1.5 billion bank transaction in the quarter and that certainly ticks up the volume. But at the same time, we also saw improved portfolio quality. We saw lower LTVs, and obviously lower LTVs translate into lower pricing. So we saw the proportion below 70% loan-to-value increase quarter-over-quarter. But we continue to see very strong credit profile. And for portfolio insurance, a large part of the pricing is driven by the regulatory capital and regulatory capital does incorporate credit score and with a very strong credit profile, lower LTVs that allowed us to price appropriately for the risk profile, and that did lead to the lower average premium rate quarter-over-quarter.

With respect to looking forward, October 31st is bank year-end. And sometimes, we do see demand around that time frame. So we're continuing to monitor that situation. But as we've always said, portfolio insurance can be lumpy, and it's very difficult to predict demand because it really is driven by lender demand.

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

Okay. So there's -- because previously, your portfolio of volumes have been pretty quiet. And a lot of that, I think, was to do with sort of the capital adjustments that happened last year. So nothing has really changed on that front. It was just more -- this is viewed as more of a potentially a one-off sort of demand situation?

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

Well, certainly, we hope it's a trend. But having said that, until we see following transactions, it's difficult to predict what the level of volumes will be for the remainder of the year. I think, certainly, the market has adjusted to the regulatory capital changes and everyone has adjusted to where the sweet spot is, perhaps for portfolio insurance. But obviously, we'll have to wait and see what lender demand emerges for the second half of the year.

Operator

And our next question comes from Geoffrey Dunn with Dowling & Partners.

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

Stuart, can you detail how the regulatory process differs in the approval of a majority stake sale in the company versus an entire sale of the company?

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

Yes, Geoff, I mean, the regulatory process in terms of a change of control is the same. So the RSV and Department of Finance review would be largely the same. I think the only real difference is in terms of soliciting approval from the minority shareholder interest in order to execute on the whole sale. But essentially, the nut of that is that any change of control requires ministerial and OSFI approval, and that's really where the main focus would be in the transaction here.

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

Is there anything to note about total company sales in Canada? I mean, is that typically a harder prospect?

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

Not to my knowledge. I think there is more involved, as I mentioned, obviously, there is a minority shareholder approval process that would be on top of just the sale of the stake. But it's certainly not something that hasn't been done before. I'm sure there is precedent for that, and it will be achievable in the event that it was better looking to acquire the whole stake or the whole company rather.

Operator

And our next question comes from Geoff Kwan with RBC Capital Markets.

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

Just one had a question, well, actually two of them. First one was just on the 905 region, are you seeing -- the data seems to suggest that things are getting better. Just wondering if that's what you're seeing there or whether or not there's still some weakness in certain pockets, whether or not it's by municipality or by housing type outside of the core of Toronto.

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

Geoff, I would say the 905 area is doing very well, actually. I mean, there has definitely been a normalization. We like to use that word a lot, but it's true in terms of how the markets are behaving. So the reason why I think you'll see more activity. And it's first time home buyer, but it's also broader than that. We've seen some of our industry participants see some uptick in their volume as well. It's really just that no longer are buyers facing multiple bid situations with massively overpriced bids. So I would say that there is the opportunity to get in, there's a more stable interest rate environment, and there's still a lot of strength in the economy, particularly in the 905 region. So you've got a lot of things working towards a more active housing market, and that's really what we're seeing, too.

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

And would you say that kind of the anecdotes of people kind of sitting on the fence, waiting for prices to come down more, that perhaps, at least from your experience, had a good chunk of those? Or how would you kind of characterize it if what part of that buyer category would be kind of in the market?

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

Right now, I'd say there's a fair bit of people that have actually decided that the time is right to buy now. So if anyone was hesitating on account of wondering whether the prices will come down. That was probably last year. I think they've seen stabilization in the market. They like the rate environment, and they feel confident in their employment. And that's why we actually -- what I would refer to as pent-up demand coming out now. And it's only -- you've heard that. We've seen people saying, now is the time to buy. And so I think that is the reason why you're seeing a lift in the volume, and I suspect that will continue, provided the economic backdrop is still strong. And certainly, at this point, there doesn't seem to be any immediate outlook for a rising interest rate environment here. So that's certainly going to continue to bode well for consumers getting back into the housing market.

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

And just the last question I had is, from the claims perspective, obviously, Alberta is kind of the area of probably most concern on a relative basis and other areas in Ontario, Quebec, BC, where -- I mean, the prices are starting to head in the right direction or potentially may be stabilized out here in Vancouver. But also areas that you're not necessarily getting the stress in terms of those delinquencies and whatnot. But given that dynamic, and we're also only a month into the third quarter, but are you -- is there a bit of a positive bias in terms of kind of average reserve on new stuff that's coming through the door?

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

Yes, I would say that, obviously, Alberta, as we mentioned, it plays a big role right now on the average reserve. Everywhere else is still very strong. I think you will see our loss ratio, as we guided, is going to sort of trend towards the lower half of our guidance this year. And the real question is, what happens next year. And I think we still maintain our view that there's going to be a normalization of our loss ratio in time. And that will be reflected as Alberta improving, average reserves there coming down, volume and delinquency is coming down, and a gradual normalizing again, if you will, in Ontario, BC, where you see a pickup, generally speaking, in the volume, and perhaps a slightly higher average reserve. That would take time, and it's really going to be based on how the economy does. We've seen housing markets now normalize. I think as the unemployment levels gradually revert back to the mean over the next couple of years, I think you'll start to see that build in our loss ratio towards our pricing range of 20% to 25% that we've been messaging for some time. It's taking longer than we thought, and we're okay with that. And it really is a function of the underlying economy. That's how I think about it.

Operator

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

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

Thank you, and thanks again for joining us today. We do appreciate your time. This concludes our Second Quarter 2019 Earnings Call.

Operator

And that does conclude today's conference. Thank you for your participation. You may now disconnect.