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Genworth Financial, Inc. (GNW)

Q2 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to Genworth Financial's Second Quarter 2016 Earnings Conference Call. My name is Sherlan, and I will be your coordinator today. At this time, all participants are in a listen-only mode. We will facilitate a question-and-answer session towards the end of the conference call. As a reminder, the conference is being recorded for replay purposes. Also, we ask that you refrain from using cell phones, speaker phones or headsets during the question-and-answer portion of today's call.

I would now like to turn the presentation over to David Rosenbaum, Head of Investor Relations. Mr. Rosenbaum, you may proceed.

David Rosenbaum
Head of Investor Relations, Genworth Financial, Inc.

Thank you, operator. Good morning, and thank you for joining Genworth's second quarter 2016 earnings call. Our press release and financial supplement were released last night, and this morning our earnings presentation was posted to our website, and will be referenced during our call. We encourage you to review all of these materials.

Today, you will hear from our President and Chief Executive Officer, Tom McInerney, followed by Kelly Groh, our Chief Financial Officer. Following our prepared comments, we will open the call up for a question-and-answer period. In addition to our speakers, Kevin Schneider, Chief Operating Officer, and Dan Sheehan, Chief Investment Officer, will be available to take your questions.

During the call this morning, we may make various forward-looking statements. Our actual results may differ materially from such statements. We advise you to read the cautionary notes regarding forward-looking statements in our earnings release and related presentation, as well as the risk factors of our most recent Annual Report on Form10-K as filed with the SEC.

This morning's discussion also includes non-GAAP financial measures that we believe may be meaningful to investors. In our financial supplement, earnings release and investor materials, non-GAAP measures have been reconciled to GAAP where required in accordance with SEC rules.

Also, when we talk about the results of our international businesses, please note that all percentage changes exclude the impact of foreign exchange. And finally, references to statutory results are estimates, due to the timing of the filing of the statutory statements.

And now I'll turn the call over to our CEO, Tom McInerney.

Thomas J. McInerney
President, Chief Executive Officer & Director

Thank you, David, and good morning, everyone. Today I will briefly discuss five key topics. First, our second quarter financial results; second, the progress we are making to maximize opportunities in our mortgage insurance businesses; third, the progress we are making in long-term care rate actions; fourth, an update on the U.S. Life Insurance restructuring plan; and last, an update on our strategic options. I will then turn the call over to Kelly to provide more details on the quarter's financial results.

There can be no doubt that we continue to operate in a very challenging economic environment. As if volatile oil and commodity prices, historically low interest rates and slow global growth weren't enough, the Brexit referendum has further heightened uncertainty. Even before the United Kingdom voted to leave the European Union, we believed that economic conditions in Europe would remain difficult. In 2015, we sold our lifestyle protection insurance business, and this past May we sold our European mortgage insurance business. With that, we have now exited all European business operations.

Outside Europe, very low interest rates remain a concern for the future of overall profitability of our life, annuity and LTC businesses. They are also important inputs to our statutory margin and GAAP loss recognition testing, and Kelly will update you on our annual assumption review timing and process in a few minutes.

Facing low interest rates is nothing new for our industry or for Genworth. That is certainly true in recent years, when we expected interest rates to remain lower for longer. Since 2001, we've been hedging a portion of our cash flows in LTC to protect against low rates and bolster LTC margins. In 2014, our LTC pricing assumed a lower new business investment yield of 3.25%. The consumer market continues to adjust to pricing at these more conservative levels, given there are few active writers of individual and group LTC products today.

Margin pressures from very low interest rates have challenged the entire life and annuity industry. As a result of those pressures, and our current low ratings, we suspended sales of life and annuity products last quarter. At the same time, low interest rates are relatively neutral for our mortgage insurance businesses. While they make new home purchases more affordable, low rates create momentum in the mortgage refinance market, driving higher lapses in our existing portfolio as well as pressure on our yields in our invested assets.

Going forward, the macroeconomic headwinds we are experiencing do not change the fundamental demand for our unique ability to help our customers achieve the dream of home ownership and manage the financial challenges of aging.

Which brings me to my first topic. We were pleased with our overall performance in the second quarter.

Net income and net operating earnings exceeded our expectations even after a $21 million after-tax charge in the fixed annuity business, where very low interest rates exacerbated by the fallout from Brexit caused the fixed immediate annuity product line to have a negative loss recognition testing margin.

In our U.S. and Canada Mortgage Insurance businesses, loss ratios remain strong at levels below our targeted ranges for the year. In Australia, the loss ratio in the quarter was higher due to seasonal impacts but also as a result of continued unfavorable experience in the commodity dependent regions of Queensland and Western Australia. In Long-Term Care insurance, we saw significant benefits from premium rate action approvals and claims experience is stable compared to the first quarter. Life Insurance earnings were solid. We saw good mortality results, particularly in term insurance.

Turning to my second topic, our Mortgage Insurance businesses. One of our overall goals for 2016 is to continue to strengthen and grow our Mortgage Insurance platforms by taking advantage of accretive market opportunities and by optimizing the use of our capital. We have taken a number of steps towards this goal.

Our U.S. Mortgage Insurance business continues to be one of our strongest businesses. Over the last several years, we have underwritten increasing levels of new business that continue to outperform our pricing expectations, and delinquencies continue to trend down. We were especially pleased with U.S. MI's very strong second quarter new insurance written growth to $11.4 billion, its strongest quarterly performance since 2008.

As the business focuses on growth, we are working to make it easier to do business with us through our differentiated service levels, which when combined with our competitive pricing and guidelines drives value to our customers. I would add that we also continue to make good progress managing capital under PMIERs. To that end, in July, we executed two excess of loss reinsurance transactions that cover the 2016 and 2017 books of business at an attractive cost of capital in the mid-single digits. As previously announced, we anticipate U.S. MI initiating dividends to the holding company as early as 2017.

In Canada, the housing market remains resilient. Continued strength in Vancouver and Toronto is more than offsetting softness in Alberta where the local economy continues to feel the effects of low oil prices. In the second quarter, we seized an opportunity to enter into nearly $20 billion of high-quality bulk insurance transactions. This volume was primarily driven by demand from large banks amid regulatory changes that went into effect on July 1st of this year, which we expect to result in decreased volumes of these bulk transactions going forward. Future bulk volumes, of course, will vary from quarter to quarter.

In Australia, the flow market has softened as regulators continue to focus on the lending environment, which has impacted lenders' risk appetite. Given these trends, the business continues to seek opportunities to optimize capital. In June, GMA completed a capital reduction initiative of A$202 million which resulted in US$76 million of cash to our holding company.

Turning to long-term care rate actions, we continue to make very good progress executing our premium rate action strategy. Earnings year-over-year were favorably impacted by a net $58 million from increased premiums and reduced benefits related to rate actions. We have temporarily seen higher levels of customers choosing to reduce benefits versus accepting premium increases on a limited number of filings. These particular implementations began in the third quarter of last year and will wind down in the second half of 2016.

Even as political divisions intensify at the national level, we are seeing a growing bipartisan understanding of the indispensable role that long-term care insurance plays in strengthening state budgets. In the second quarter, regulators approved 31 rate filings impacting roughly $200 million of in-force premium with an average approved rate of 21%. In our experience, the regulators are becoming increasingly more aware of the need for actuarially justified increases and are working with us to make progress on that front. Importantly, the rate action approvals and filings for the second quarter were in line with the expectations used in our 2015 margin testing.

Turning to my fourth topic, I want to provide an update on our U.S. life restructuring plan. As we discussed on our first quarter earnings call, we suspended sales of traditional life and fixed annuity products effective March 7th, resulting in declining sales volumes over the quarter. We do not expect any further sales of traditional life and annuity products for the foreseeable future.

In connection with the suspension, we completed the sale of our term life new business platform to Pacific Life during the quarter. This will have no impact on our in force book of term life business. Notwithstanding these actions, our U.S. Life Insurance business remains committed to servicing our existing in-force life and annuity policy and contract holders.

We had also announced that we would reduce overall U.S. Life Insurance and headquarters expenses. As of the end of the second quarter we achieved our goal of $150 million in cost reductions on an annualized basis. This past quarter we also took additional steps towards the repatriation of our Bermuda subsidiary, BLAIC. In July, we completed the recapture of the term life business in BLAIC to the U.S. Life Insurance companies and also completed the termination of an excess of loss treaty provided by BLAIC for a term life insurance block. And during the quarter, we filed applications with Delaware, California and Bermuda, requesting regulatory approval for the final step of the repatriation – the merger of BLAIC into Genworth Life Insurance Company, or GLIC. We expect to complete the repatriation of BLAIC in the fourth quarter, subject to these regulatory approvals.

These are very important steps in reducing the interdependencies across our corporate structure and, when combined with the successful bond consent solicitation completed in March, represent significant progress towards the separation and isolation of LTC.

The separation and isolation of LTC provides Genworth the best opportunity to focus on achieving our multi-year rate action plan. Not only is this essential for GLIC's financial health, it has further benefits for the policyholders of our other insurance companies in that it reduces the impact of potential uncertainty associated with LTC on their operations and financial position.

Extensive discussions with our primary regulators indicate that they understand that LTC rate actions are the key to improving the financial position of GLIC. And as I've said before, they understand why we need our life and annuity business to pay some level of dividends to the holding company to reduce our debt and strengthen the financial position of the holding company.

Having said that, over the last few months, our primary regulators have received numerous inquiries from other regulators as well as health and life insurance companies who have expressed concern regarding GLIC's distribution of its subsidiary, GLAIC, as part of the restructuring plan. We believe that the Penn Treaty insolvency and pending liquidation and concern about the ultimate amount that health and life insurance companies will have to pay into state guaranty funds in the future have been significant factors behind such concerns.

As a result, from our discussions with regulators, we believe that they will work with us on our plan to unstack GLAIC from GLIC over time, although both the timing and capital required are subject to their review of official filings and specific requests. We are targeting to unstack a portion of GLAIC from GLIC by the end of the first half of 2017. We expect further unstacking may occur in the future years commensurate with the turnaround and recovery of GLIC.

Turning to my last topic, the board and management are actively considering a number of strategic options for Genworth. We have two priorities – enhance long-term shareholder value, and reduce their debt level. We remain open to both financing options and other strategic alternatives as we evaluate addressing our debt maturities. We are also actively pursuing options that would accomplish the goal of separating and isolating the Long-Term Care Insurance business from our other businesses and ultimately separating the Mortgage Insurance businesses from the U.S. Life Insurance businesses.

Our assessment takes many factors into consideration. Although we have discussed strategic options with a number of third parties, we have not made any decisions to pursue a specific strategy or plan as of today and we cannot make any assurance that any of these options could be implemented on a satisfactory basis.

We will update our stakeholders and the market on our strategic review throughout the second half of 2016. Progress has been made, and we are continuing this work with a sense of urgency and a commitment to rebuilding shareholder value.

With that, let me turn the call over to Kelly to provide a deeper overview of the quarterly financial results.

Kelly L. Groh

Chief Financial Officer & Executive Vice President

Thanks, Tom, and good morning, everyone. Today I will cover our second quarter results and the key drivers as well as provide some context around our upcoming assumption reviews in our U.S. Life Insurance business in the second half of this year.

Let's begin with this quarter's financial performance. Net income available to Genworth shareholders for the quarter was $172 million, which includes $85 million after-tax of gains from the sale of U.S. Government Treasury Inflation Protected Securities or TIPS that were partly offset by impairments and a loss on discontinued operations.

In the quarter, we reported net operating income of $123 million, reflecting continued strong loss performance in our U.S. and Canada Mortgage Insurance businesses as well as strong Long-Term Care Insurance rate action results from reserve releases on reduced benefits and growing premiums.

Moving to revenue, our sequential results were up from the prior quarter as the prior quarter's revenue was lower due to the impact of the life block transaction. Turning to our ongoing expense management efforts, as Tom mentioned, we have achieved our cash expense reduction target that we initially set in 2015 and then increased to approximately $150 million pre-tax on an annualized basis as compared to our 2014 levels.

We will continue to focus on simplifying our business and improving processes on an ongoing basis to drive efficiencies. Our operating expenses in the quarter were $327 million. This does include a $55 million payment related to a third-party recapturing a small block of single premium immediate annuity business where the cash transfer for the reserves is reflected in this line item but is not a true operating expense.

Moving to our underwriting results for the quarter, we saw solid loss performance across the majority of our businesses with some pressure in our Australia MI business. The loss ratio on the quarter for our Australia MI business was 36%, up 10 points sequentially, driven by seasonality and new delinquencies along with incremental pressure from the commodity-driven regions of Queensland and Western Australia.

We will continue to closely monitor these areas and take appropriate actions to maintain the overall credit quality of new business. Given current expectations and historical second half of the year seasonality, characterized by lower new delinquency development, we still expect our full year loss ratio for our Australia business to be within our previously stated range of 25% to 35%.

Our Canada MI business' loss ratio decreased 4 points from the prior quarter to 20%, primarily reflecting a seasonal decrease in new delinquencies net of cures across most regions. While we are pleased that the first half of 2016 loss performance has been strong, we do recognize the potential for incremental loss pressure going forward, particularly from oil-producing regions like Alberta. Having said that, we are reducing the top end of our loss ratio range to take into account first half results and currently anticipate a full year loss ratio in the 25% to 35% range.

In U.S. MI, our second quarter loss ratio was 24%, which is flat to the prior quarter. The 24% loss ratio for the first half of 2016 is below our targeted range of 30% to 40% for the full year, driven by favorable seasonality from elevated cure activity.

Although we expect higher loss ratios in the third and fourth quarters driven by seasonal pressure, we now expect the full year 2016 loss ratio to fall near the lower end of our 30% to 40% range. We will continue to evaluate loss performance in our MI businesses relative to our anticipated range and provide updates as appropriate.

Moving to our U.S. Life Insurance segment, our second quarter results reflect the continued positive impact of long-term care insurance rate actions and stable claims performance, favorable life mortality, as well as two charges in our fixed annuity business that I'll get into in a minute.

Beginning with our long-term care insurance business, we saw higher investment income and stable claims experience compared to the first quarter. Results in the quarter also reflected reserve calculation refinements and a correction in the quarter, that when combined, resulted in an unfavorable impact to earnings of $29 million after-tax.

LTC results in the first half of 2016 were driven by higher benefits from our rate actions, which were largely driven by reserve releases from policyholders taking reduced benefit or nonforfeiture options during the implementation of certain rate action approvals. We also experienced seasonally favorable terminations.

I'd like to provide some context on our expectation for the business's second half performance. First, while claim termination levels can vary based on a number of factors, we generally expect and have experienced less favorable claim terminations in the second half of the year.

Second, we expect the remaining quarterly reserve releases from reduced benefit elections from our in force rate actions, in aggregate, to be lower than the levels we saw in the first two quarters of 2016, as the implementation of certain rate increases are expected to be completed in the third quarter.

Third, although losses from new claims were not a driving factor for earnings compared to the prior quarter, we continue to anticipate a growth in new claim counts and higher severity as our blocks continue to age.

Given these items and absent any impacts that could result from our annual review of the claims reserve assumptions in our annual margin testing in the second half of the year, we expect modest long-term care earnings in the second half of 2016 with quarter-to-quarter variation depending on specific experience.

Turning to life insurance, we saw favorable mortality results and lower reinsurance expenses in the quarter. Compared to last quarter, these were offset by lower investment income primarily from unfavorable prepayment speed adjustments related to our residential mortgage-backed securities.

Going forward and absent any impacts that could result from our annual review of assumptions in the fourth quarter, we expect life earnings to remain at or near the levels experienced in the first half of 2016 with some variation due to seasonality and mortality fluctuations.

In fixed annuity, we saw unfavorable mortality related to recent trends as well as a $7 million after-tax charge related to the third-party recapture of a SPIA block. Additionally, I noted last quarter that persistent low interest rates in the near-term could push the margin on our $5.8 billion fixed immediate annuity block negative.

Given the significant declines in interest rates in the quarter, we completed loss recognition testing as of June 30 and found that the margin was negative. The resulting DAC write-off and the reserve strengthening created a $32 million pre-tax or $21 million after-tax impact in the quarter. Given the margin is currently zero, any future adverse changes to assumptions will negatively impact earnings.

Moving forward, we expect to see ongoing fixed annuity earnings in the high teens. This assumes we have no additional charges in SPIA, that our variable investment income will be less favorable than we've seen historically, and that mortality will be more in line with our experience than the elevated levels we saw in the quarter.

Now, I'll move to capital levels where our mortgage insurance businesses continue to maintain strong capital positions across all platforms. In U.S. MI we finished the second quarter with PMIERs sufficiency ratio of 115% or in excess of $350 million above the required assets, up from 113% at the end of the first quarter and 109% at the end of 2015.

This growth was primarily driven by the increase in market value of U.S. MI's interest in MI Canada, the sale of MI Europe, favorable tax benefits and solid business performance that was offset by incremental new insurance written, or NIW. We will continue to manage our PMIER's compliance with a prudent management buffer.

Given U.S. MIs continued strong performance and strengthened balance sheet, we still expect to begin receiving dividends from the business as early as 2017. I also want to take a moment to address the lower NIW average price for our monthly product in the first half of 2016. Since last year, our NIW mix has trended towards higher credit quality loans as reflected in our FICA (sic) [FICO] mix.

In April we launched a new monthly rate card which better aligned our pricing with the PMIERs capital factors while reducing our rates across all loan-to-value ratios for borrowers with credit scores above 740. The mix shift in NIW we've experienced since the beginning of the year has resulted in a lower weighted average price on better credit quality and, importantly, a similar reduction in PMIERs capital requirements. Giving effect to both changes in price and capital, we continue to assess our returns in the low to mid-teens for our U.S. MI new insurance written.

Moving back to capital ratios in our Canada MI business, we saw an estimated capital ratio of 233% in the quarter, which continues to remain above the company's operating MCT or minimum capital test target of 220%.

Canada continues to experience solid underlying performance, paying $12 million of ordinary dividends to the Genworth holding company during the quarter.

In early fall, we expect a new MI capital framework to be published by the regulator of financial institutions in Canada or OSFI, for comment, that's anticipated to have an implementation date of January 2017. As part of this new framework, OSFI is expected to introduce supplementary capital requirements for new business written in cities where home prices are high relative to household income.

In response to the supplementary capital requirements, we expect mortgage insurers may need to introduce higher premium rates for insured mortgages in the affected cities. At this time, we are not in a position to fully assess the impact of the new capital framework and the proposed supplementary capital until after a draft framework is published by OSFI.

Our Australia MI business ended the quarter with an estimated capital ratio of 156%, which is above the high end of our PCA or prescribed capital amount management target. During the quarter, Australia MI completed a capital management initiative that resulted in a $76 million payment to the holding company. Additionally, the business just announced an ordinary and special dividend that will be paid in the third quarter that will provide approximately $50 million of cash to the holding company.

While our original dividend expectation for 2016 was $100 million to $150 million from our Canada and Australia MI businesses, the capital management initiatives in our Australia MI business have us on track to exceed this expectation. We expect the total international dividends and capital return for our holding company to be approximately $200 million for the year.

Turning to U.S. Life Insurance statutory performance, unassigned surplus and the risk-based capital ratio both decreased from the prior quarter partly due to an increase in reserves for Universal Life Insurance products with secondary guarantees in our New York subsidiary. Additionally, both were impacted by the net unfavorable adjustments to LTC reserves and premiums partially offset by favorable impacts from the LTC premium rate increases.

RBC was also unfavorably impacted in the quarter by lower interest rates, which impacted the required capital calculations for variable annuity products. Additionally, as Tom mentioned, we recaptured our term life insurance business from our Bermuda subsidiary in early July. As a result we anticipated that unassigned surplus and RBC in the third quarter will be negatively impacted by approximately $150 million to $200 million or 15 to 20 points of RBC from the recapturing of this business as part of the U.S. life restructuring plan. We expect that impact reverse sometime over the next several quarters as we implement reinsurance solution on the recaptured business.

Moving to the holding company, we ended the quarter with approximately $934 million of cash and liquid assets, which represents a buffer of approximately $510 million in excess of our 1.5 times our annual debt service and restricted cash. The increase over the prior quarter was driven by a number of factors, including $128 million of intercompany tax payments from U.S. Life Company subsidiaries, primarily related to a restrike of our forward starting swaps and gains from TIPS; $88 million of dividends from the operating companies, including the impact of Australia MI capital reduction initiative; and $21 million of net other items and expenses, including cash margin posted for the hedges, partly offset by $63 million paid for debt interest expense.

Additionally, in July, the holding company received a $175 million intercompany tax payment related to the life block transaction completed in the first quarter of 2016. This amount, as a reminder, is earmarked to help facilitate the separation and isolation of our LTC risk.

Going forward, the holding company expects to continue to receive cash through dividends coming from our Canada and Australia MI businesses, potential intercompany tax payments from our U.S. Life Insurance subsidiaries over time and the expected dividends from U.S. MI beginning next year or later as well as from GLAIC upon completion of a partial unstacking subject to regulatory approval.

Managing our debt levels and taking advantage of opportunities in the market, as we are able to, remain a focus for us. We continue to prudently assess our options to address our near-term debt maturities, including cash at the holding company, ongoing subsidiary capital optimization efforts and both financing options and other strategic alternatives.

Before I turn it over for questions, I want to spend a few minutes discussing our annual assumption reviews that are scheduled to occur in the second half of the year as well as how the low interest rate environment may factor in, since I know that's on the mind of many of our investors and analysts.

In Long Term Care, we are working through our disabled life reserve analysis. You may recall that in 2014 this is a study that resulted in methodology and assumption changes that led to a large reserve increase. And given that experience in the aggregate included in our 2015 analysis was in line with expectations, we made no significant adjustments related to claims reserves at that time.

Our review this year will cover assumptions such as claim termination rates, utilization rates and incurred but not reported reserves with a focus on improving the fit of our assumptions to actual experience with the benefit of another year of additional data. We expect to provide an update on this review as part of our third quarter earnings call.

Long Term Care margin testing on both a GAAP and statutory basis are expected to occur in the fourth quarter. In addition, we're transitioning to a new projection system for the majority of our LTC block that we plan to utilize this year for our LTC cash flow testing and loss recognition testing. The new projection system is expected to provide more granularity on healthy and disabled life assumptions and provide better analytical tools for scenario testing.

Similarly, the annual assumption reviews for our life and annuity products are expected to occur in the fourth quarter, but we will continue to monitor market-driven inputs including the current interest rate environment and evaluate whether an earlier update is necessary.

We expect to evaluate a number of other assumptions in addition to interest rates during our third and fourth quarter reviews. In considering our interest rate assumptions, we will evaluate our reinvestment mix, expectation of future interest rates and spreads to name a few.

Having said that, I wanted to provide some additional details on key interest rate assumptions for our product since, as Tom noted, they are important variables when projecting future profitability. For our life, long-term care and annuity products, our year-end 2015 statutory cash flow testing margins would have remained positive for GLIC and GLAIC after adjusting for the impact of the current rate environment on our future yields.

Statutory margins in our New York entity for long-term care were already negative as of year-end 2015 and adjusting for the current rate environment would further deteriorate the negative margin. For our Universal Life and Term Universal Life insurance block, changes that decrease our interest rate assumptions would negatively impact earnings.

In last year's testing, we did reduce our interest rate assumption about 35 to 70 basis points across our projection horizon from the previous year. This resulted in our 2015 assumption of a 10-year Treasury yield growing to approximately 3.9% over 30 years. We plan to review our assumptions related to long-term rates in the fourth quarter unless an earlier review is warranted.

For our fixed immediate annuity block, given we just unlocked, a further decrease in rates from the June 30 level would negatively impact earnings. We will continue to evaluate this assumption as well. We plan to provide some updated sensitivities for these interest rate assumptions in our second-quarter Form 10-Q.

To sum things up, I am pleased with our improved performance across the company and in the quarter along with our improved cash position at the holding company. We still have a long road ahead of us, but we remain focused on the operational progress and strategic actions intended to rebuild shareholder value over time.

With that, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll have our first question from Ryan Krueger, KBW.

Ryan Krueger
Keefe, Bruyette & Woods, Inc.

Q

Tom, you mentioned expecting to unstack a portion of GLAIC from GLIC in the first half of 2017. Can you provide more details on what exactly you're doing there and how big that piece would be?

Thomas J. McInerney
President, Chief Executive Officer & Director

A

So, good morning, Ryan, and thanks for your question. We've had a number of discussions with the primary regulators, and at this point we believe that they're supportive of a partial unstacking. We're still discussing the amount of that but I think the view would be that we would unstack a portion – it would be a meaningful portion upfront – and then as we hopefully continue to make progress in our LTC premium actions, we would be allowed as sales go through and improve GLIC's overall performance and financial condition, they would allow additional percentages of unstacking to go forward over time.

Ryan Krueger
Keefe, Bruyette & Woods, Inc.

Q

Would business from GLAIC be moved to a new entity? Is that how it would work?

Thomas J. McInerney
President, Chief Executive Officer & Director

A

No, basically, right now GLIC owns 100% of the stock of GLAIC, so what we would be doing is moving the ownership – partially, the ownership from GLIC to GNA, which is an intermediate holding company. And so then, going forward whether it's dividends from GLAIC or we sold GLAIC as an option, the percentage that is owned by the intermediate holding company, that dividend or proceeds would go directly through to the parent and wouldn't get tied up or trapped in GLIC.

Ryan Krueger
Keefe, Bruyette & Woods, Inc.

Q

Okay, thanks. And then on BLAIC, do you have an update on the capital and the RBC there so we can gauge the impact when you repatriate the entire piece of it?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Yeah, thanks for the question, Ryan. This is Kelly. When I look at BLAIC for the quarter, we are actually in excess of $1 billion of capital and the RBC ratio is actually in excess of about 400%. Now, the impact on GLIC's RBC overall is going to depend on the amount of capital that's remaining in BLAIC at the time of the repatriation that, like we said in the press release, we anticipate it to be done in the fourth quarter. So it's strong capital levels at this point in time, but I'm not going to foreshadow right now the capital levels that will be there at the time of the repatriation.

Ryan Krueger
Keefe, Bruyette & Woods, Inc.

Q

Okay. Thanks. And then just one quick one. Do you have an estimate of U.S. MI market share in the quarter and how you're thinking about that going forward?

Kevin D. Schneider
Executive Vice President & Chief Operating Officer

A

You know, Ryan, we – until all the numbers are in you never know for sure but based upon the strong quarter that we had and the strong NIW levels, we would estimate it in the 16%-ish type range.

Ryan Krueger
Keefe, Bruyette & Woods, Inc.

Q

Is that a level you think you can maintain going forward?

Kevin D. Schneider
Executive Vice President & Chief Operating Officer

A

We've had a lot of success, Ryan, with growing and improving our market share, based both upon the competitive nature of our pricing in the marketplace, which we think is still at very attractive returns and we've really been emphasizing sort of our differentiated service strategy, with highlights for a really strong and quick turnarounds for our lender partners. So we do think we continue to bring a lot to the market. We have a little pressure developing in the market as it relates to our financial strength ratings, but I think that where we've gotten in terms of our PMIERs capital has made that even a stronger value proposition to consider from the quality of our balance sheet and hopefully that will offset some of that ratings related pressure.

Ryan Krueger
Keefe, Bruyette & Woods, Inc.

Q

Thank you very much.

Operator: We will go next to Geoffrey Dunn, Dowling and Partners.

Geoffrey Murray Dunn
Dowling & Partners Securities LLC

Q

Thank you. Good morning. With respect to the partial unstacking on the life side, I guess first, if the process is taking longer than expected, is there any indication that you could also need to move up the $200 million that you've earmarked to help this process or should that be taken care of because you're waiting for the LTC operations to get better over time?

Thomas J. McInerney
President, Chief Executive Officer & Director

A

Good morning, Geoffrey. I don't think the timing of the unstacking is much different. I think what we had said last quarter is we expected to initiate the unstacking by the end of the first half. We're still on that timeline, I think. We now know that it's going to be a partial unstacking and then over time we do the remaining part of that. As part of the discussions with the principal regulators on the unstacking, which are Virginia and Delaware, we have agreed to put up to $175 million of capital to facilitate the unstacking, and that $175 million, as you know, is coming from the tax payment that GLAIC made to the parent.

We made that in July – I think Kelly said that in her remarks. That will – that's available to facilitate the unstacking and so we've been telling the regulators that that's about it for the amount of capital that we would put in as part of the unstacking and I think we continue to have discussions with them on that. So that's still – the $175 million that is at the parent now, based at July, so this would be in addition to where we ended June 30 on the cash, we have earmarked that to put into GLIC to facilitate the unstacking and that's still our plan. And I think that obviously is viewed positively by the regulators.

Geoffrey Murray Dunn
Dowling & Partners Securities LLC

Q

Okay. And once the partial is achieved next year, do you anticipate having some ability to take dividends out of GLAIC that will at least partially make it directly to the HoldCo and help the cash position?

Thomas J. McInerney
President, Chief Executive Officer & Director

A

I'll let Kelly give you a sense of the dividends that GLAIC has paid in the past but, again, coming back to why are we doing this, it's to separate and isolate LTC in addition by having partial ownership that hopefully will grow over time of GLAIC by GNA, the intermediate holding company. Whatever dividends are approved by Virginia for GLIC to be paid, you know, in the past they have been trapped in GLIC, whatever their percentage is that's owned by GNA would pass – once the dividend is approved by Virginia would pass straight to the holding company. There's no other regulatory involvement. And, Kelly, I think, if you could just give him a sense of the dividends we've paid in the past.

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Sure. Geoffrey, this is Kelly. You know, when I look at the dividends that GLAIC has paid over the three years, it's been about $340 million. So that gives you a sense. I think on last quarter's call I had indicated a range with a full unstacking of dividend capacity in the $100 million to $200 million per year but the thing that we need to keep in context there is with the unstacking transactions these will be extraordinary dividends, and when we look at $100 million to $200 million, we were really calculating that assuming that we would work with our regulators to get approval for extraordinary dividends over a specified RBC level, so that's the generation. With a percentage of ownership, obviously, whatever percentage we unstack that proportion would be able to flow to the holding company, and anything coming out of GLIC would be subject to their regulatory approval.

Thomas J. McInerney
President, Chief Executive Officer & Director
A

And, Geoffrey, just one more comment for you and the other analysts and investors on the call. You know for the last three years, two or three years, we principally relied on Canada and Australia as the only regular dividend payers to the parent. And we are now looking at, I think, a total of five sources versus the two. So we think this is all progress. Where we still have Canada, Australia, we think U.S. MI is on track, as we said, to pay dividends, hopefully starting in 2017. And then whatever the unstacking is, that will be a source of dividends.

In addition, the term business that we sold to Protective, as you know, utilized all the NOLs in the Life companies, so the fifth source of cash, which you saw in the second quarter, about $128 million came from taxes now that the Life Company, particularly GLAIC, is a profit payer, it will reimburse under the tax sharing agreements whatever that taxable amount is. And since the parent, because of U.S. MI and other NOLs, won't have to pay that to the tax authorities until that's all utilized, that creates an additional cash position. So I do think we're making significant progress. Things are moving in a good direction on our ability to significantly expand the sources of capital to the holding company to help us manage the debt service over time.

Geoffrey Murray Dunn
Dowling & Partners Securities LLC
Q

Okay. Thank you for your comments.

Operator: [Operator Instructions] We will go next to Suneet Kamath, UBS.

Suneet L. Kamath
UBS Securities LLC
Q

Thanks. I just wanted to follow up on Geoffrey's question, just so I'm clear. Should we think about that $175 million that you have earmarked for the Life sub to be the actual flow to represent the amount that you unstacked? In other words, if you do a 50% unstacking, then only 50% of the $175 million would be put in or do you need to put it all in order to get any level of unstacking?

Thomas J. McInerney
President, Chief Executive Officer & Director
A

So, Suneet, good question. We had committed to the regulators – Virginia and Delaware – that we would put in that tax payment. We would round-trip it from, GLAIC parent to GLIC. We still intend to do that. Obviously we were originally hopeful that we would get a full unstacking. I think now we think we've gotten to I think a reasonable place with the regulators and I understand their view that let's do a partial now and then over time – because they also, in my remarks I said, the key to GLIC's success in the future is the premium actions. We are making great progress on those.

And so I think Delaware, which is the principal regulator here on the unstacking, wants to see us partial upfront and see us achieve those premium increases over time, which is the core to strengthen GLIC, and then they would do additional – we hope additional unstacking over time, but we still – we have earmarked the $175 million to put into GLIC and that's still our expectation.

Suneet L. Kamath
UBS Securities LLC

Q

Okay. Got it. And then I guess on the long-term care assumption review in the third quarter, my recollection and please correct me if I'm wrong is that as we moved over the past few quarters you've talked about the underlying assumptions actually tracking pretty nicely against, or the underlining performance – excuse me – tracking pretty nicely against the assumptions that you made when you did the reserve charges in the past. But based on the comments that you were making in your prepared remarks, it seems like maybe there's some new approaches that are going to be used, so any sense in terms of should we be expecting there to be a charge in either the third quarter or four quarter related to long-term care?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Thanks for the questions, Suneet. Really we're going to go through our regular process; it's probably too early to tell on anything as we're reviewing the assumptions. And the one thing I do want to talk about, we did refine a couple of things this quarter, as you know, we did four small adjustments to our claims reserve just based on emerging experience that we had seen as a part of our enhanced analytics that we've been looking at in our hindsight testing on a quarterly basis, felt it was appropriate to record it in the quarter because we'd finalized that part of our analysis and booked it this quarter.

We're still reviewing, like I mentioned in my prepared remarks, we've got an additional year of data. It has fit pretty well. Our hindsight testing has been very helpful as a part of that. But we are trying to improve the fit overall on those assumptions. We'll look at utilization rates. We do update our utilization rates actually on a quarterly basis just using kind of a rolling estimate, so that's not something that I would anticipate being a significant adjustment, but it's something that we do look at periodically.

We'll reevaluate our claim termination rates and really just try to make them fit, so we haven't done enough work to give you a call either way, but the work's underway and we plan on finalizing the claims reserves in the third quarter, and then finalizing both cash flow testing and loss recognition testing in the fourth quarter.

Thomas J. McInerney
President, Chief Executive Officer & Director

A

Yeah, and Suneet, I'd like to just make two additional observations, just to be clear, because it's not always – I mean, it's difficult to understand some of these – that any changes in the claim reserves that we make, if we do make any in the third quarter, would impact the third quarter results for – in the fourth quarter, when we get to the ALR and the margins, any decision that we made would impact the margin and since we have on a statutory basis 2.5% – about a 2% to 2.5% margin and on U.S. GAAP it's 2.5% to 3%, we have room on that.

And then the final comment I'd like to make is, obviously, these very low interest rates are going to impact the whole life insurance sector, including Genworth. And I know that many of the analysts and shareholders are very concerned and very negative on the long-term care insurance business, which we certainly get given the challenges with the legacy book.

But one of the advantages that we have because the LTC insurance is a big part of our overall life business, it is the one, compared to life and annuity, it has the advantage where you can seek additional premium increases that help recover some of the deterioration. And so I do think that it's somewhat overlooked with all the negativity on LTC, because the legacy book, that you do have more opportunity to manage the challenges, particularly in the margin where from a low interest rates because of what you can do with premium rate increases.

Suneet L. Kamath
UBS Securities LLC

Q

No, that makes sense. And then just the last one for me, on the holding company cash outlook, the $200 million of dividends you expect from the International MIs, I think if I pull out what you've done so far this year and maybe that $52 million or so for the rest of the year, any color or guidance on the other pieces, whether it's the net other items or some of these derivative gains that you are able to use this tax sharing to send cash upstairs. Any color on what are the other elements of the holding company flows that we should expect for the second half?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

I appreciate the questions, Suneet. Like Tom mentioned, on the tax payment side, we have already received the $175 million from GLAIC related to the River Lake I and River Lake II transactions. So you will see that coming in next quarter and we've got that earmarked to facilitate the unstacking.

On net other items, it's hard to predict individual legal entity taxable income on a quarterly basis. So I don't want to call it on that. We're currently not anticipating anything significant other than the $175 million that we've got coming in. And then related to dividends, you're right on. We're at $148 million on a year-to-date basis from Canada and Australia. And so, if there's additional capital actions that could be above the $200 million but we're currently planning on approximately $200 million from those two platforms.

And then on the net other items, I mentioned last quarter that usually they're a little bit seasonal. And in the first quarter, there is more outflows, which then get repaid by the subsidiaries in the second, third and fourth. So that's one way to think a bit of it, but it's generally pretty small.

Suneet L. Kamath
UBS Securities LLC

Q

All right. Thanks.

Operator: We'll go next to Jimmy Bhullar, JPMorgan.

Jamminder Singh Bhullar
JPMorgan Securities LLC

Q

Hi. First question just on the holding company cash needs. Could you give us the numbers on what you expect for – I guess, it's the operating expenses at the HoldCo as well as interest expense over the next year? And then I had a couple other questions.

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Sure, Jimmy. I'll be happy to. The one thing on interest expense is, absent a significant debt buyback, it runs roughly $60 million a year. We will be resetting – I'm sorry – $60 million a quarter.

Jamminder Singh Bhullar
JPMorgan Securities LLC

Q

Yeah.

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

But hang on one second. So we will be resetting rates on about half of our hybrids. And so those will go to a LIBOR floating rate, and that will be about $11 million or $12 million benefit to our annual run rate on that. So that's a feeling for interest expense.

Related to tax payments, I don't have a forecast on that nor a net forecast on HoldCo expenses. But I don't think absent a large litigation settlement or something like that that we would have anything that would be terribly significant, since we do liquidate most of the holding company expenses to our operating subsidiaries.

Jamminder Singh Bhullar
JPMorgan Securities LLC

Q

Okay. And then on the $29 million adjustment to Long Term Care reserves in this quarter, what were the main drivers of that?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Sure. I'd be happy to answer that, Jimmy. There were really four different items that we, I'll say, tweaked. When you've got over a $5 billion claims reserve, any small adjustments, obviously, are going to add up to something. And there were really four items.

One was related to a calculation on shared policies for when two people share a benefit pool and really just a refinement of the reserve that we need to have up depending on who uses that benefit pool. Another one related to a change in estimate around reopened claims. So when we close a claim, what's the likelihood that that will be reopened.

The third one related to a change in pending claims – that really came out of our hindsight testing and as we saw what percentage of our pending claims actually convert to a real claim. And the last one was just really actually a favorable correction that offset those three items on how we were coding marital status. So we generally see that benefits paid to married couples tend to be lower because one of the members can take care of the other for a period of time and they use less benefits. And so, we adjusted our reserve associated with marital status. So those are the four items.

Jamminder Singh Bhullar
JPMorgan Securities LLC

Q

And then lastly, just the environment for getting price hikes in the LTC business, has it gotten a little bit better because everybody else is doing it or are you reaching a point where you are seeing more pushback given that you've had to go to the regulators several times over the last few years?

Thomas J. McInerney
President, Chief Executive Officer & Director

A

I think, Jimmy, it's getting a lot better. It's driven by – I think there've been a number of public hearings and others that I think more and more regulators are understanding that. I would point out – you may have read about some of this if you read The Washington Post – that the Office of Personnel Management, there's a Federal Employee LTC program and the OPM and Treasury who looked at all of that and they've approved increases of up to 126%.

So I think the federal government acknowledging now that that's the case – now, obviously the employees aren't too pleased with that.

But I think the Penn Treaty liquidation, again, I would encourage all of you who are interested to read the petition that's been placed before the court from Teresa Miller, the Commissioner of Pennsylvania, for the liquidation of Penn Treaty. They have about 78,000 policies. The net present value of the assets for those policies is about $445 million and the net present available liabilities is over $4 billion. So there's a net shortfall of $3.8 billion.

And the principal challenge for Penn Treaty, that went insolvent in 2001, is because they never received any premium increases. So again, I think – and there's various numbers out there. The $3.8 billion shortfall isn't necessarily what the state guarantee funds will be assessed, because not all of those policies will go unclaimed; nevertheless, and 78,000, it's a big number. And so I do think that – and that was a relatively small company – and I think that regulators, state regulators now understand that these premium increases are actuarially justified and, particularly on the legacy blocks, I think they are much more willing now to give actuarially justified premium increases.

In our case, we're asking only to get to breakeven going forward. And if you just look at that Slide 12, you can see that in 2015 for the whole year, we received 35 filing approvals in 2015, the whole year, and we've received 52 in the first half of the year. I am not saying that's 104 for the year, but in any event I would say, we will have significantly more filings approved in 2016 and going forward.

So I think for a lot of reasons we've overcome what had been when I first came to Genworth the big challenge of regulators because of the political pressure not wanting to give the increases, to now having regulators really understand that if they want the LTC providers and companies to pay the claims and to stay in the market – they (sic) [to] have a private market – so not all these people go on Medicaid in the future. I think they really get it; they have to give these increases. So I'm much more optimistic today than I've been that we will continue to do well on our premium increase strategy.

Jamminder Singh Bhullar
JPMorgan Securities LLC
Q

Thank you.

Operator: Ladies and gentlemen, we have time for one final question. Ken Billingsley, Compass Point.

Ken Billingsley
Compass Point Research & Trading LLC
Q

Hi. Good morning. Thanks for taking my questions. I wanted to focus on U.S. MI and kind of future expectations. Given your comments on low interest rate environments and where the banks are in the process of actually making loans, it looks like the FICO score percentage of your business over 735 actually increased. So when you compare available housing, if the banks are reluctant to loan, even in this low interest rate environment, where do you see the housing market over the next 12 months to 18 months?

Kevin D. Schneider
Executive Vice President & Chief Operating Officer
A

Ken, this is Kevin. I think we're very encouraged by the overall housing market and how that translates into the mortgage insurance market. The rates are low. It's really beginning to start kicking in and supporting the purchase market, which is the area of the market where we have a much higher penetration. We do expect there'd be some ongoing refinance volume going on, but overall, this quarter's going to come in at roughly like a $70 billion type quarter for the entire industry. And we think we're going to have a solid year going forward. A lot of pent-up demand in the marketplace is starting to come back into the market. The fact that our FICO has shifted and the mix has shifted has been net positive for us in terms of because the higher FICO business requires less PMIER capital. And so while it's maybe dragged our average price down a little bit, our returns are holding up quite well because you have less capital required for that production that you are writing.

I think the gist of your question really gets to what about the lower ends of the credit spectrum and are those folks being squeezed out of the market. And I think we would be more than willing to participate in some of the lower ends of the market. A lot of that is today being done – I would say about 15% of the overall lower FICO levels being done by the FHA.

I think a lot will depend on what the FHA does going forward, whether they reduced their prices, which is very possible in an election cycle that that could happen. But I would say overall we remain relatively bullish about the market going forward. We think it's going to continue to be strong. This economy is a consumer-driven economy at this point in time, and I think housing is going to hold up just fine.

Ken Billingsley
Compass Point Research & Trading LLC **Q**

And on the single premium side, there was an increase in that, what's the thought process that's driving that decision from a profitability standpoint and from a future growth. Where is it coming from and is it the place that you want to continue to focus?

Kevin D. Schneider
Executive Vice President & Chief Operating Officer **A**

Yeah, as a percentage of our overall production for the quarter, in U.S. MI, it actually went down modestly from the prior quarter from 27% to 26%. The single premium business doesn't generate as strong a returns as our monthly borrower paid product.

We've historically been underweight relative to the amount of single premiums that are being done in the marketplace. And I think you should see that actually sort of trending down probably in the third and fourth quarter into the lower range of the 20% level.

But when you look at the overall portfolio returns and you blend in both the level of single premiums that we choose to do and we're able to price for very discretely, and you put that together with the nice returns we're seeing on our borrower paid product, overall, our blended returns remain in the low to mid-teens. And we think that's a pretty good return in this environment, particularly with the pressure we have on our investment income due to yields in the marketplace, and it's kind of hard to beat.

So we use it selectively. We use it relationally. We use it in combination with our borrower paid product and we're very selective on the risk that we put into it. And so the pricing has deteriorated slightly over time if you just look at the raw pricing metric for our single premium product, but it's on higher credit quality business and at lower capital charges and so we're comfortable with the level we're doing today and we think it's helped us achieve the share development that we have under our belt.

Ken Billingsley
Compass Point Research & Trading LLC **Q**

And if I could ask one more question, switching gears to the LTC side, just trying to understand the second half of this year and also looking into 2017, you mentioned an aging book, and should there be assumption that we should see lower spreads because of the reduced reserve benefits that have come through in prior quarters from rate increases and people selecting reduced benefits? If my understanding is correct, is the volume of rate increases that have been stacked on top of each other with the prior quarters, is that abating to the point where there just aren't going to be the volume of rate increases that we've seen in the past, though you're still asking for them? Is that a correct assumption?

Thomas J. McInerney
President, Chief Executive Officer & Director

A

First of all, I want to be clear, Ken, on what we're saying. Obviously, we deal with 50 states plus the District of Columbia and we make filings in all of those states. In one state there were I think four filings where the regulator preferred that we emphasize to policyholders reduced benefits versus, in this case, a fairly large premium increase. And so we agreed with the regulator to do that and that's what we did. And generally, as you know, up until now for most of the states and most of the filings, we've gotten an 85% choose the premium increase, 15% take a reduced benefit or the paid-up policy option.

In this particular set of filings, because we were asked by the regulator, and all the regulators have to approve what we say to our policyholders in our letters, in those filings and the implementation there was a significantly higher percentage who took the reduced benefit option than the premium increase, so for those four filings – and it was because it was a large state and large premium increases, it had a meaningful impact.

So on those filings that – because we started implementing that in last year's third quarter and as you know they're implemented on the policy anniversary date, so those will now wear off, but we are still getting sizable premium increases – you saw in the second quarter an additional 31, and I would think that we would continue to roughly be above 80% of customers taking the premium increase, and so it's really more in this particular instance.

Now more states may down the road decide that they also want us to emphasize the benefit reductions; for example, many of our policies, probably three quarters, have a 5% benefit inflation factor. Inflation hasn't been running that high so some regulators are beginning to think maybe we ought to be encouraging policyholders to at least consider that.

But absent that, we continue to build up the premiums going forward and those who take the premium increase, again, that's more than 80% of the overall policies, even counting these four implementations, that's cumulative and they continue to build and will come in as long as those policyholders are paying premiums, so we still – you also see, if you look at Page 12 that the total estimated benefit to net operating income in 2014 was $186 million and 2015 it was $255 million. That's for the full year. First half of 2016, and it's $195 million, so again, I think you will continue to see for all of 2016, 2017 and 2018 the benefit from premium increases will continue to improve over time as we get additional premium increases because they all net build on what we've gotten up until now.

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Yeah. And Ken, this is Kelly. Just to add a little, kind of numbers to it, when I think about first-half earnings versus second-half earnings, we do typically see the seasonality on the benefits paid and then we also, like we mentioned, would anticipate larger claims as some of the newer books, those customers get older and go on claim. But the way I think about it is, you know, we could see $70 million to $75 million worth of pressure in the second half of which maybe two-thirds is benefit-related or termination-related and maybe a third of it's just the rate action thing that Tom is talking about.

Ken Billingsley
Compass Point Research & Trading LLC

Q

You said a third of it was rate action; is your expectation?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Yeah, yeah. That would be my expectation at this point in time. Recognize, obviously, with over a million policyholders there can be a lot of variability but that's really just a first-half 2016 to second-half 2016 comparison.

Ken Billingsley
Compass Point Research & Trading LLC

Q

So it's really not so much the volume of policyholders facing rate increases as declining, it's just been the strategy – whether it's induced by the states or not – has been just the focus of asking them to take the reduced benefit and that may actually slow down

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Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Yeah. It's just really a ordering of how you present the options; they still have all the same options as the policyholder and it's just kind of the ordering of what they decide to choose.

Ken Billingsley
Compass Point Research & Trading LLC

Q

All right. Well, thank you for taking my questions.

Operator: Ladies and gentlemen, I will now turn the call back over to Mr. McInerney for closing remarks.

Thomas J. McInerney
President, Chief Executive Officer & Director

Thank you, Sherlan, and thanks to all of you for your time and your questions today. I also want to thank our management team and the thousands of employees that we have for their very hard work in what is a very tough macroeconomic environment in the U.S. and around the world and also for the progress that the employees have allowed us to make.

We're very pleased with the overall performance in the quarter and the progress we've made on the U.S. Life restructuring plan, including achieving $150 million cash expense reduction and, of course, the additional steps we've taken to repatriate the Bermuda subsidiary.

We continue to work well with our regulators and our plan to separate and isolate the Long Term Care insurance business from our other businesses, while remaining open to other financing and strategic options to address our debt and enhance long-term shareholder value.

Finally, I want to thank everyone on the call today for your continued interest in Genworth. And that will conclude the call.

Operator: Ladies and gentlemen, this concludes Genworth Financial's second quarter earnings conference call. Thank you for your participation. At this time, the call will end.