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GNW - Q1 2011 Genworth Financial Inc Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Genworth Financial's first-quarter 2011 earnings conference call. My name is Carla 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 this conference call.

As a reminder, the conference is being recorded for replay purposes. Also, we ask that you refrain from using cell phones, speakerphones, or headsets during the Q&A portion of today's call.

I would now like to turn the presentation over to Alicia Charity, Senior Vice President of Investor Relations. Ms. Charity, you may proceed when ready.

Alicia Charity - *Genworth Financial, Inc. - SVP IR*

Good morning and thank you for joining us. Our press release and financial supplement were released last evening and are posted on our website. This morning you will first hear from two of our business leaders, starting with Mike Fraizer, our Chairman and CEO, followed by Pat Kelleher, our CFO. Following our prepared comments we will open up the call for a question-and-answer period.

In addition to our speakers, Kevin Schneider, Senior Vice President and President of our U.S. Mortgage Insurance segment; Jerome Upton, Chief Operating Officer of our International segment; Ron Joelson, Chief Investment Officer; and Buck Stinson, President of Insurance Products for our Retirement and Protection business, will be available to take questions.

With regard to forward-looking statements and the use of non-GAAP financial information, some of the statements we make during this call may contain forward-looking statements. Our actual results may differ materially from such statements. We advise you to read the cautionary note regarding forward-looking statements in our earnings release and the Risk Factors section of our most recent annual report and Form 10-K filed with the SEC in February of 2011.

This morning's discussion also includes non-GAAP financial measures that we believe may be meaningful to investors. In our supplement and earnings release, non-GAAP measures have been reconciled to GAAP where required in accordance with SEC rules. Finally, when we talk about the International segment, please note that all percent changes exclude the impact of foreign exchange.

And now let me turn the call over to Mike Fraizer.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Thank you, Alicia; and thanks, everyone, for your time today. We made progress this quarter in a number of key areas that we identified for investors earlier this year; and overall we are on track to achieve the goals outlined in our February update. Progress in specific areas ranged from gradual to more substantial, with disciplined execution. Clearly we still have work to do in some important areas and have intense focus there.

This morning, Pat Kelleher and I will provide perspectives across five Company priorities -- accelerating the recovery and return to profitability of U.S. Mortgage Insurance; ensuring that our International businesses maintain strong performance and continue to generate capital for the holding company; driving profitable new business in Retirement and Protection while improving in-force performance; continuing to optimize the performance of our investment portfolio; and managing our business portfolio to improve shareholder value.

I'll concentrate my comments on U.S. Mortgage Insurance, touch upon International and Investments, and wrap up on the business portfolio. Pat will go deeper on International, Retirement and Protection, and capital.

Starting with U.S. Mortgage Insurance, we are seeing three fundamental dynamics in the in-force. First, total delinquencies are declining due to burn-through of credit risk from the 2005 through 2007 book years.

Second, loan servicers are becoming more active in working to clear existing delinquent loan inventory by pursuing a dual path -- pushing loans through to foreclosure while simultaneously evaluating potential loan modifications. Third, strong performance continues for business added since mid-2008 with expected returns above 20%.

Let's touch upon these more specifically. Total delinquencies continue to trend down, with delinquency burn-through in the 2005 through 2007 books, demonstrated by reductions in counts, which were better than benefits experienced historically from seasonal delinquency improvement.

We saw self-cures increase substantially through the quarter, which was evident in our cure ratios. We did experience ongoing benefits from the government HAMP program and other alternative modification programs. So we are on track to achieve our targeted $400 million to $500 million of loss mitigation benefits on a full-year basis, achieving $122 million of this in the quarter.

Looking ahead, we see 13% of our current delinquency pipeline under active review for modification, and an additional 62% with modification potential. I would note we have not yet experienced benefits from the broader Fannie Mae loan modification program announced last November that remains in a rollout phase.

Turning to loan modification redefault rates, they are performing well and have settled in at the low end of the 30% to 35% ultimate range we anticipated, a big improvement over the 50% to 55% level seen in old-style loan modifications.

We did see claims develop in the quarter as expected and experienced aging of delinquencies as loans get pushed through to foreclosure. We believe a contributing factor is servicers pursuing the dual-track process of evaluating loans for modification potential while simultaneously moving forward with the necessary steps to enable foreclosure.

Looking at our new books of business put on after the first half of 2008, these now represent about 19% of our risk in-force and are performing very well. In fact, as I mentioned, they should deliver estimated returns on equity above 20%. An important issue here remains the industry recapturing enough share from the FHA of this attractive new business and us maintaining a desired share position versus competitors.

On the U.S. MI capital side of the equation we have executed our flexibility plan effectively. First, we maintained sound claims paying ability under our variety of stress scenarios. We also now have state waivers or other regulatory communications in place which support writing new business above a 25-to-1 risk-to-capital level in 45 states, and can write new business in the other states using additional legal entities that have sufficient capacity.

Finally, we have demonstrated capital flexibility alternatives which do not depend on cash held at the holding company, and have the potential to do so again if we consider it appropriate. An example of such an approach is to use securities we hold outside of our Life companies and holding company in support of U.S. MI.

Stepping back, the reserve actions we took in the second half of 2010 reflecting the aging of the delinquency inventory were prudent and aid in transitioning the business. As you all know, the housing market remains challenging, though we would agree with the commentators to estimate peak-to-trough home price declines of around 20% for the segments served by MI industry. This would suggest there is an additional decline of 5 to 6 points still to go, which we should experience during the course of 2011.

So to sum up U.S. MI performance we are seeing expected transitions and believe second- and third-quarter performance, which should benefit from some of the dynamics we are seeing, will add clarity around potential crossover points and timing for a return to profitability.

Now let me address developments in Washington affecting U.S. MI on both the public policy and loan servicing fronts. First, we view the administration's proposals for reducing the government's dominant role in housing finance through the FHA as a clear step in the right direction. Ultimately that should mean an even greater reduction in FHA loan limits than current proposals call for.

In March, the proposed risk retention rule was made public. It includes a definition of a qualified residential mortgage, or QRM. The rule also provides that the GSE guarantee is an acceptable form of risk retention at present. As a result, our traditional market of insuring GSE loans, which accounts for the majority of our business, would currently not be impacted by the proposed rule.

As drafted, the rule is a very narrow in several respects and could keep many good borrowers out of the market. Congress made it clear that regulators ignored their legislative intent, a point that was driven home in a hearing at which Kevin Schneider testified a few weeks ago.

The rule is currently open for comment until June 10. Our primary focus during the comment period will be to remind regulators that there is clear and compelling data showing that comparable loans with mortgage insurance perform notably better than those without. It should be included in the definition of a qualified residential mortgage.

You also may have seen the announcements last week by the FHFA concerning loan servicing standards that included three basic themes -- early and repeated contacts with borrowers regarding potential for loan modifications; single points of contact within loan servicers to aid consumers through the loan modification process; and additional financial incentives to encourage sound loan modifications. We see all these actions as positives for our loss mitigation strategies.

Turning to International, the businesses performed well and are on track to deliver about $350 million in dividends to the holding company in 2011 and a collective 100 basis point improvement in ROE to about 13%.

We are seeing a gradual increase in market share in Canada and see this continuing. The market size in Australia remains challenged, impacting new business levels.

Loss ratio performance remained sound. Sequentially, we saw some negative seasonal and Alberta impacts in Canada, with improvements in these areas already emerging. In Australia, we experienced initial economic impacts from the floods and are monitoring these closely to see whether they linger and if any combined effect emerges, given higher interest rates and higher consumer living costs.

We were very pleased with the progress in Lifestyle Protection, with earnings up nicely and margins expanding in line with our total-year targets from the combined effects of repricing and contract improvements together with lower losses. Given the consumer and lending environment in

Europe, Lifestyle Protection sales remained flat, so ongoing initiatives on activating new channels, further penetrating existing channels, new countries, and expense management remain important.

In Retirement and Protection we saw progress towards improving performance, made clearer when excluding one-time or nontrendable items which created some noise in the quarter. Overall, operating revenues grew 6%, with leadership line operating revenue growing 9.5%, tracking for a full-year target.

New business growth was strong and occurred in the areas we targeted. And strategies to extract lower return capital from the Life business are progressing. Pat will provide more detail on Retirement and Protection lines and progress, given his new leadership role there.

Turning to investments, the portfolio delivered another sound quarter as we continued to optimize performance. We had just $16 million of net investment losses during the quarter and $37 million of net unrealized losses on the balance sheet at quarter-end. We also have small holdings in Japan and expect minimal impact from the tragic events there, and are comfortable with our minimal exposure to European sovereign debt.

Let me wrap up with a few comments on business portfolio and capital management. First, we are pleased with the completion of our debt offering plans for the year. We will execute plans to reduce overall leverage to the 20% range, as we outlined during our February investor update, using cash to retire debt maturing in 2011 and 2012.

Our goal is to first delever and then redeploy excess capital for the benefit of shareholders. If we can identify paths that accelerate this transition while preserving ratings and taking into account other relevant factors influencing value and positioning, we will do so.

Second, we are in the final steps of our strategic review of the Medicare Supplement business that we mentioned in February. In addition, Pat will expand on plans to free low-return capital from targeted Life blocks.

Finally, as we align businesses to maximize commercial and financial synergies, we will be in a better position to harness the value of our tax assets effectively, which increases strategic and financial flexibility over time. So in sum, and we remain intently focused on the five priorities I opened my comments with, have made progress during the quarter, and will remain very focused on execution across these fronts.

Before turning it over to Pat, let me just say that we are excited to have Marty Klein join the team and take over as CFO after finalizing the first quarter, and are equally positive on Pat Kelleher's move to take over as CEO of Retirement and Protection. With that, let me turn it over to Pat.

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

Thanks, Mike. This morning I will provide perspectives on and a closer look at current quarter progress and performance trends in three key areas. First, performance and capital plan progress in our International businesses. Second, performance trends in our Retirement and Protection segment, including insights into the progress we are making toward improving in-force performance and shareholder value in our Life and Long Term Care businesses. And finally, holding company and operating company capital updates, which illustrate how we have positioned our operating businesses with flexibility to pursue appropriate capital strategies.

Starting with our International businesses, earnings improved overall while sales trends were mixed. Capital generation remains strong and the International businesses are on track to meet overall ROE improvement and operating company dividend targets for 2011.

In Canada, flow new insurance written increased 5% year-over-year. We have achieved good growth by gradually increasing our market share, although the high loan-to-value mortgage market was modestly smaller than the prior year.

The overall economy has been performing slightly better than anticipated, and we expect average home prices to be flat for the full-year 2011 after benefiting from year-over-year increases. Canada earnings were $51 million, up 20% from prior year including a $9 million acceleration of full-year tax benefit, partially offset by increased interest expense of $2 million associated with 2010 Canadian debt issuances.

On a sequential basis, earnings increased $5 million as a result of the tax benefit, partly offset by anticipated higher seasonal losses and higher losses in Alberta during the quarter, with improvements emerging since then.

In Australia, flow new insurance written declined 27% year-over-year reflecting the cumulative impact of 2010 mortgage interest rate increases, a slow return to the high loan-to-value market by some banks, and softening demand as a result of consumers' increased focus on savings. Estimates indicate that national home prices have moderated from mid-2010 levels; and the unemployment rate at the end of the first quarter remained flat versus fourth quarter at 4.9%.

Australia earnings were $52 million, up 9% from prior year despite a $5 million after-tax addition to loss reserves relating to recent floods impacting economic conditions in Queensland in particular.

In Lifestyle Protection, sales were flat, reflecting the ongoing lower levels of consumer lending in the past few years. Consumers remain cautious and are working to improve their personal balance sheets. We remain focused on increasing account penetration and expanding distribution channels to offset challenging market conditions.

Lifestyle Protection earnings were $25 million, up more than 100% from prior year as post-financial crisis repricing and contract restructuring actions benefit earnings development along with more stable, although still stressed, economies and employment conditions through much of Europe. We remain on track with our goals for Lifestyle Protection to deliver about a 300 basis point improvement in operating margin and 200 to 300 basis point improvement in ROE in 2011.

Total earnings for the International segment were $124 million, up 30% from the prior year as both Canada and Australia performed well and as the Lifestyle Protection loss ratio and margins improved. These International businesses are well positioned to meet our 2011 targets for overall ROE improvement of approximately 100 basis points and $350 million of operating company dividends to the holding company.

Turning next to our Retirement and Protection businesses, total Life Insurance sales were up 60% versus prior year and 15% versus fourth quarter. We continue to make progress with Term UL and traditional UL products, and strong sales of our single premium linked benefit product -- a UL product with a Long Term Care rider -- accounted for most of the sequential sales growth we achieved in the quarter.

Life Insurance earnings increased to $52 million, with revenue growth and improved term insurance persistency during the quarter contributing to the increase. Mortality was moderately higher than prior year, but within the normal range of statistical variation. While better persistency and less exposure to post level period lapse risk both contributed to improved earnings, a clear plus, I would note that one quarter of improvement does not make a trend. In addition, Life Insurance earnings benefited from a favorable adjustment of $8 million relating to a change in premium taxes in Virginia during the quarter.

Total Long Term Care sales were up 16% versus the prior year and were consistent with fourth-quarter results. Here, individual Long Term Care sales accounted for the year-over-year increase and also offset an expected sequential seasonal decline in senior supplement sales during the quarter.

Long Term Care earnings were $40 million, flat versus a year ago. Current quarter earnings included an unfavorable adjustment of $4 million related to accounting for interest rate hedges. Long Term Care had a stable loss ratio just below the middle of the target range, and the Medicare Supplement loss ratio reflected expected seasonal patterns.

Note that these seasonal patterns create an increasing trend of Medicare Supplement earnings through the year, as claims early in the year are elevated until Medicare beneficiaries reach deductible limits, and then diminish significantly as the year progresses.

Wealth Management had its eighth straight quarter of positive net flows which, combined with favorable market returns in the current quarter, brought Assets Under Management to over $25 billion. Wealth Management earnings were $10 million, down $1 million from a year ago, given some increased tax expense during the quarter. Pretax earnings were up 21% and reflect the AUM growth we have seen over the past year.

Total Retirement and Protection earnings were $127 million, up 4% from the prior year. Adjusting for a $7 million after-tax charge relating to our previously announced decision to discontinue new sales of variable annuities, earnings were up 10%. With strong sales lifting revenue growth, improvement in Life Insurance earnings, and progress implementing rate increases in Long Term Care, first-quarter results reflect a good start toward meeting our 2011 ROE improvement and revenue growth targets.

We discussed during our February investor update that achieving desired improvement in Retirement and Protection segment returns will require meaningful changes to our in-force Life and Long Term Care insurance portfolios. Here I will spend a minute or two to provide some additional color regarding how we are looking at Life block transactions and the status of Long Term Care repricing initiatives to improve returns.

Starting with Life Insurance, block repositioning transactions are an important area of focus. We have two clear objectives for block transactions which we are targeting through reinsurance or other means.

First, we are targeting dispositions of selected blocks which exhibit earnings volatility. Here we are evaluating transactions involving certain old blocks with a good history of intrinsic profitability but where locked-in GAAP valuation assumptions are not reset to align with emerging persistency experience.

This misalignment creates earnings volatility. Simply put, these blocks are expected to be attractive to insurers and reinsurers who can reset valuation assumptions in a purchase transaction and achieve a more stable return profile. In turn we achieve a more stable earnings growth pattern through a structured sales of such blocks.

Second, we are targeting dispositions of selected blocks which have good mortality and persistency experience but low returns on capital due to excess US statutory reserving requirements and related reserve financing costs. Such business may be more valuable to insurers or reinsurers in non-US regulatory or tax jurisdictions, where reserve funding and taxation costs are lower.

We expect these objectives to be achieved in a series of transactions starting in the second half of 2011 and through 2012. All-in, the desired outcome would be to create meaningful, redeployable capital via these transactions while retaining customer relationships and servicing rights. A portion of this capital would be expected to be used to create increased operating company dividends to the holding company, while a portion could support accretive new business. During the quarter, we made progress evaluating these opportunities.

Moving to Long Term Care insurance, we continue to see strong growth of our new generation products, which have produced good returns and stable loss ratios for the last decade. We are currently in the process of introducing our newest portfolio of Long Term Care products which will include new wellness and caregiving features and price increases ranging from 9% for some benefits and up to 20% for others. The new product which has already been approved in 33 states is expected to roll out starting in the third quarter.

With respect to our planned 18% rate increase on certain old generation Long Term Care products, we have achieved approvals for requested rate increases in 21 states. The impact of this rate action will begin to materialize in 2011, with the full benefit anticipated in 2012.

Finally, let's turn to capital updates. Here we have positioned our holding company and our operating companies to maintain financial flexibility and pursue appropriate capital allocation strategies. At the holding company, we are successfully executing our plans to maintain strong financial flexibility and allocate capital to meet near- and medium-term objectives.

We currently have $1.3 billion of holding company cash and short-term securities. During the quarter, we issued $400 million of new long-term debt. This was above our planned $250 million 2011 issuance, as there was an opportunity to upsize the offering and gain additional financial flexibility at the holding company, which is a clear plus from a ratings perspective. Over time we still plan to reduce overall leverage to our target of approximately 20%.

At the US Life Insurance companies we ended the quarter with a consolidated risk-based capital ratio of approximately 370%, well above our target level. Our ratio declined during the quarter, primarily reflecting modest amounts of excess Life reserves that we have taken back on the statutory balance sheet on a temporary basis, as we transition these to more cost-effective excess reserve refinancing opportunities. We remain well above our target RBC ratio of 350%.

In our International operating companies, capital generation and capital ratios remain strong, reflecting the dynamics I outlined earlier in reviewing our businesses in Canada, Australia, and in Europe. I should note that our Canadian subsidiary has announced plans for a CAD160 million repurchase of currently outstanding common shares during 2011. It would be our intention to tender shares for repurchase on proportional basis and maintain our 57.5% ownership interest. This would bring an estimated $80 million to $85 million to the holding company.

In U.S. Mortgage Insurance, as Mike indicated, we have plans in place to continue writing attractive new business and to manage U.S. MI capital without impacting planned holding company cash flows.

With that I will open it up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ed Spehar, Bank of America Merrill Lynch.

Ed Spehar - *BofA Merrill Lynch - Analyst*

Thank you. Good morning. A couple questions. First, Pat, I was wondering if you could tell us what portion of your in-force Life Insurance block would fall into the two categories you highlighted as sources of potential dispositions?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

Sure, Ed. When I say meaningful and a series of transactions over the second half of 2011 and 2012, I am looking at, I will say, several hundred million of capital being freed up for redeployment, which is in line with the plans that we have to accelerate the redeployment of capital, and as well to free up low-return capital, while at the same time building the franchise value of the Life Insurance business by adding accretive layers of new business.

The intent there with reducing volatility, freeing up capital, and growing the new business is to produce both a better return on capital as well as more stability in the growth of the return.

Ed Spehar - *BofA Merrill Lynch - Analyst*

That's helpful; but Pat, I was wondering if you could give us some sense of the reserve, percentage of reserves for these categories. Not necessarily the stuff you are going to sell. I appreciate sensitivity around being too specific on that.

But just generally what portion of your total Life reserves fall into the bucket that would be looked at?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

Well, I haven't looked at it that way. I am looking at capital as I will say several hundred million. I would say that what we are going to be doing is taking a meaningful percentage of the business and redeploying -- or through sales, redeploying capital. From a reserve perspective it really depends upon the mix of transactions that we include and how much of this falls into each bucket.

Ed Spehar - *BofA Merrill Lynch - Analyst*

Okay. Then I was wondering if you could give us some update on -- I am sorry if I missed it -- on statutory earnings. Maybe the first quarter, if you have it, some sense of it; and also just an update on what you consider to be the run-rate stat earnings number.

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

I can do that. We have not filed as yet our statutory statements; and the quarterly numbers do tend to be volatile. So what I would like to do is talk about statutory income on an annual basis because that will give you an idea of run rate. That said, the reported annual statutory income has shown some volatility in the past few years due to investment losses, reinsurance transactions, variable annuity reserve changes where the hedging offsets are charged or credited directly to surplus.

So if adjust for those items, we are seeing in the last two years consolidated pretax statutory income of approximately $300 million to $400 million. We look at this as the statutory earnings for the insurance and annuity businesses before consideration of investment gains and losses.

I would expect that 2011 statutory earnings for the year will be consistent with that level, probably in the $300 million to $400 million, before consideration of investment gains and losses. We are focusing on the pretax as indicative of capital generation because our Life companies are currently in a tax loss carryforward position, so the pretax earnings accrete to capital. Is that helpful?

Ed Spehar - *BofA Merrill Lynch - Analyst*

Yes, very much. Very helpful. Thank you.

Operator

UBS Securities, Andrew Kligerman.

Andrew Kligerman - *UBS - Analyst*

Yes, good morning. The first question, just -- I am getting a sense from some of your competitors in U.S. Mortgage Insurance that maybe foreclosures were stalled as there were issues with robosigners and so forth. So there was a lot of mitigation locking that up.

To that point, could your claims have artificially been stalled in the first quarter? And could we likely see a big pickup in losses as we go into Qs 2, 3, and 4?

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

Hi, Andrew. This is Kevin. I will take that. I think absolutely you probably had some friction in terms of the ultimate claims settlement levels that were going on in the market, given all the scrutiny that was being placed on the servicers coming out of the third and fourth quarter news cycles that we heard about.

We still had foreclosures. They weren't up quite as much, but they were still elevated. And you have got to recall, once it goes to foreclosure that doesn't automatically trigger a claims payment. So you have got a little -- you still have some timing element there.

So I would absolutely expect claims to continue to trend up. We have got a lot of inventory here that is ultimately going to go to claim that still needs to flush itself out through the system. So I don't think that is anything we don't expect, and it is consistent with our current view of our reserving adequacy.

Andrew Kligerman - *UBS - Analyst*

Okay, so there is a chance the loss ratio could be higher than 197 in subsequent quarters?

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

I think what we really need to think about is -- where do we stand from the reserves adequacy given those delinquent loans that are ultimately going to go to claim? I think we will have to see how it plays out in terms of our --.

Our loss ratio isn't just driven by the paid claim amount. It is a combination of what is going on from an incurred standpoint and your paid claims.

So I really think we sort of performed as expected against the cure levels we anticipated. So I think we are comfortable with the trends right now. But you will see claims, I would expect, continue to trend up while the balance of this inventory flushes itself.

Andrew Kligerman - *UBS - Analyst*

Okay. So directionally, Kevin, to have a vision of where we are going in the next two, three quarters?

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

In what aspect? In terms of --?

Andrew Kligerman - *UBS - Analyst*

Just the overall loss ratio, just in terms of -- I know reserves play a role in it, so just in terms of where you reserved and where the ratio is going.

I know you don't want to project a breakeven point in time. But just curious directionally where you feel like Genworth is going in U.S. (multiple speakers)?

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

Yes, again, I am not -- I think what you have got to think about -- the way I think about it is, fundamentally we are seeing some really favorable credit trends right now emerge across-the-board. So you step back and think about what we talked about both in our press release as well as in Mike's commentary.

Overall delinquencies are continuing to decline. We saw them come down in every single region in the country on this quarter. That is a very positive.

New delinquencies continue to decline as well and as those old books of business burn through. So as we see delinquency performance, first-time-evers, coming down on those old books, and then you think about the loss mitigation benefit, which frankly we think we will continue to experience going forward and actually could get a little bit of additional lift in that based on some of the servicer performance -- those things all impact your loss ratio as well.

So you got to balance what is going on in terms of your new development, right, with your -- paid claims is all about where you are from a reserving standpoint. We feel like we are in good shape in terms of the adequacy of our reserves, based on where we see things going.

So it is what is going to go on with those news and the interplay that has with some of the aging of delinquency that did cause a little pressure in the quarter. So that is the headwind, I would say, to the new development.

Then on the positive side we are seeing some self-cure development that I think is indicative of some of the initial strengthening that is going on in the marketplace economically from a new jobs creation standpoint. So I am not going to give you a directional view on loss ratios; but I think it will be the ultimate interplay of those things and ultimately how the servicers do in terms of modifying some of those loans that are sort of being dual-tracked right now, which will dictate the ultimate outcome.

Andrew Kligerman - *UBS - Analyst*

Okay, thanks.

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

We will have a much better view of it after another quarter or two.

Andrew Kligerman - *UBS - Analyst*

Okay. Thanks, Kevin. Then just to Pat, just in terms of the timing of those dispositions, I think, Pat, you mentioned the second half of this year and into 2012. If I recall you maybe first presented this strategy in the fall.

So I am wondering in terms of timing, why not a lot quicker? Why not -- haven't we heard about several of these transactions already?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

Okay. Well, we really highlighted it in our year-end earnings call where we started proceeding in a determined way to do this. It takes a little bit of time, understanding the market, sounding the market in terms of who the best buyers would be. In some cases they might be US institutional buyers. In some cases they might be international reinsurers.

So we are being very deliberate about getting market color and differences in valuation from different markets so that we can get the best value for shareholders. We are not necessarily in a rush for a transaction, transaction activity; but we are trying to make sure we have the right transactions and it engineers the type of value creation that I described earlier.

Andrew Kligerman - *UBS - Analyst*

Pat, you feel pretty confident that it will close? A few of these will close?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

I feel confident about the strategy. I will just give you a little bit of supplemental information that should be available generally.

There is a Munich Re study that is done on the reinsurance industry in particular that is done along with the Society of Actuaries each year, and it really shows the amount of reinsurance activity relating to new US written business. The reinsurance market is sizable, and this segment of the market is sizable enough that it has its own name -- portfolio transactions.

So we are not inventing something new here; we are doing something that is very executable, in my view.

Andrew Kligerman - *UBS - Analyst*

Great. Then just finally the timing of that $350 million dividend to the HoldCo from the International businesses, and then also with that the timing of maybe combining those businesses with U.S. MI.

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

Okay, well I will speak to the timing of the dividend. I would expect that to happen in smaller increments throughout the year.

With respect to your second question, I will turn that to Mike.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Yes, I will just say, Andrew, we are in the process of re-segmenting the business reporting lines. We think we get some better alignment out of that.

And with that alignment, where you get to I will say either maximize or optimize your commercial synergies and continue to take advantage of financial synergies, that will put us in a better position to harness the value of our tax assets effectively, as I mentioned, which adds to your flexibility.

So our plan would see this occur by the end of the year.

Andrew Kligerman - *UBS - Analyst*

Excellent. Thanks.

Operator

Darin Arita, Deutsche Bank.

Darin Arita - *Deutsche Bank - Analyst*

Thank you. I guess going to the RBC ratio change, I think part of the pressure you mentioned was from the excess Life reserves. But I was wondering what the effect was from the very strong sales growth in both Life Insurance and Long Term Care.

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

Yes, Darin, this is Pat. Roughly speaking about three-quarters of the change from 388% to 370% was the excess reserves that we're housing on a temporary basis. Really the balance was the moderately stronger sales that we are seeing in the quarter.

We are encouraged by that, and we think that is a good deployment of capital and will increase statutory earnings on a go-forward basis.

Darin Arita - *Deutsche Bank - Analyst*

So it is fair to think that we could continue sales growth at this pace without much pressure on your capitalization?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

Yes, there's a couple of dynamics to consider there. We started a little over a year ago with a focused effort to improve our market share and sales and new business profitability in Life and Long Term Care as part of our focus on the leadership franchises. And we are really just seeing in the first quarter that the revenue development year-over-year that that is starting to generate.

From a statutory perspective, of course, you have the strain on the first year; but then you have renewal year profits. So as our new business grows, by design our renewal year profits are growing.

And we are going to be managing capital very closely. We will be very disciplined with respect to the amount of sales and capital utilization, as we have been. But that is what we are trying to accomplish.

Darin Arita - *Deutsche Bank - Analyst*

Okay. Then on the U.S. Mortgage Insurance side, I was wondering how much in additional securities are available outside of the Life companies and holding company to help the capital?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Darin, this is Mike. I guess I'd look at it this way. First, I would remind you that I think we have had very good flexibility to write new business given the actions we have taken, as well as I'd emphasize very strong claims paying ability. We test that of course under various stress scenarios.

So if you look at the capital flexibility alternatives beyond what we have in place and I have talked about, as I mentioned we do have securities that are outside of the holding company and are outside of the Life companies. If you look at those -- I am not going to give you a specific number today. The way I would look at it is we have adequate flexibility on that front to handle any of the scenarios we could see emerge.

Darin Arita - *Deutsche Bank - Analyst*

I think one of the other things is stacking the subs; is that still a consideration?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Well, I guess let's split it on two fronts. One, we have two different entities that have sufficient capital to handle in any of the areas where we don't have waivers or other communications in place. That includes those types of entities, whether they are stacked or not. Those are in place today.

If you go back to the first side of your question, and you said what is an example of types of securities that you have in your system? Just one example, for example, is using a portion of your MI Canada securities.

So that just gives you an example of the first approach. But these other entities are quite helpful in the meantime as we continue to pursue some additional waivers and other communications.

Darin Arita - *Deutsche Bank - Analyst*

All right. Thank you.

Operator

Donna Halverstadt, Goldman Sachs.

Donna Halverstadt - *Goldman Sachs - Analyst*

Good morning. Thank you for taking my question. I had a question about a comment you made early on in your prepared remarks. I believe you said that there is data out there that loans with MI performed better then loans without.

When thinking about the future demand for this product and some of the comments and analysis that the FHFA put out in mid-April, I wanted to get your view on something. Their analysis showed that while MI may well be a vehicle for the reduction of loss severity upon default, that it really did not have a material benefit to the frequency of default. It seems like a lot of the agencies involved in defining QRM are really looking at frequency of default.

So were you suggesting that there is data out there that supports a reduction in frequency? Or were you suggesting that the conversation will expand to include severity as well as frequency?

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

Morning, Donna. This is Kevin, and thank you for asking that question. I think what we are suggesting is we have compelling data that suggest it both reduces the frequency of default as well as the severity of default.

Specifically, the work that was done and the analysis that was done analyzing above-80 LTV business throughout this cycle -- so effectively from the 2002 I think through '07 books -- clearly comes back and suggests that for above 80% LTV loans that had MI on them, the only other alternative to that MI was essentially a simultaneous second or a piggyback loan. And when you compared the MI loans to those piggyback loans, number one, they went delinquent 32% less frequently than the piggyback loan.

Secondly, they in fact cured 54% more frequently than the piggyback loans. Coming all together for an ultimate favorability in terms of the ultimate default rate of 40%.

So we can clearly go and demonstrate this. And I would just contrast it to the way I interpreted the data set you just talked about that one of the regulators looked at, which was below-80 loans, 80% loans are not as risky as above-80% loans. I think that is not new information; it is the reason our industry exists.

Above-80% loans are more volatile. They are riskier type loans. But this data that we have and that we are sharing with all the regulators I believe will clearly demonstrate both a reduction in the incidence of default as well as in the severity of default. And it is tough to argue with.

Donna Halverstadt - *Goldman Sachs - Analyst*

Thanks for that color. That's very helpful.

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Operator

Mark Finkelstein, Macquarie.

Mark Finkelstein - *Macquarie Research - Analyst*

Hi, good morning. Let me get a couple follow-ups. I guess, Kevin, can you explain why you think that there is the potential that modifications could actually improve through the rest of the year? I would have actually thought the opposite.

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

Sure, Mark. When I look at -- I really think the opportunity for improvement comes down a couple of paths. One, that we believe some of the alternative programs are continuing to just ramp up; so we have continued to see decent benefit from HAMP even though some of the size of the overall trials may be trending down in HAMP. Or the news -- you are getting a lot less -- you are getting better action rates on those that are going through because the documentation required to get into the program was improved sometime last year. So we are getting a better closing rate on the HAMP loans that we are seeing.

Alternatively, I think Mike mentioned there are some new programs announced such as the one announced by Fannie Mae that really widens the population of potential mortgagees that might be available for the modification programs. Gets it outside of just an owner-occupancy level; it a just -- and provides a wider range of potential debt-to -income levels that would be available for the program.

So all these things I think create a bigger net of potential borrowers who have the potential for it. I also think the servicers are really getting focused on the job that is ahead of us.

So I think we will -- I don't expect our numbers to trail off. We expect to be able to hit the $400 million to $500 million level of loss mitigation benefit. And for us, most of that is coming from workouts.

So the servicers are focused. We are focused. We are getting after borrowers early. The FHFA announcement that came out last week effectively becomes sort of a de facto servicer standard and expectation for those servicers.

So if you get to those borrowers early, if you hit them repeatedly and more often, those are all opportunities to get after many borrowers today that last -- when this thing began, it took a long time before anybody even had a chance to talk with them. So directionally that is why we think there is opportunity there.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay. I guess maybe just on that same point, I think in Mike's opening remarks he mentioned I think 16%, 17% of the delinquency inventory is in a HAMP. Then I think there was a comment about another 60% could go into alternative mod, I think were the words.

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

Yes, if you look at our whole delinquency stack, and I reference you back to a similar type comparison we showed you at the end of February, we had today 13% of our delinquencies and of our total delinquencies are under some level of valuation, which means they are either in a trial or they have already been approved. So they are in some process or stage of modification right now.

The 62% number that was referred to is if you think about everybody that is now available for the type of programs that are out there in the market today. Everybody within the rest of our delinquency population, there is an additional 62% of our delinquencies that are eligible based upon the programs that are out there.

Are they all going to get it? No. But it has become a wider -- it gives you a wider range of opportunities that will continue to be worked by both the servicers and by us.

Mark Finkelstein - *Macquarie Research - Analyst*

I guess on that, though, do you have a view on what a realistic expectation of that 62% may go into some form of a modification program?

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

I would just back -- one way you could think about it is -- take the estimated loss mitigation savings range that we have identified of $400 million to $500 million; in the first quarter we delivered $122 million against that, of execution against that target.

If you have -- and most of the benefit from us is coming from modifications and workouts because we largely have the rescission benefit behind us. So if you work back from there I think you can walk into what might ultimately be available; and that is the way I would probably address it.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay. I guess just then on capital, a question for Pat. I guess is it fair to say that the plans that you are talking about in terms of freeing up trapped capital in the Life business, the several hundred million dollars, that is above and beyond everything that you talked about in your February 2 investor update, correct?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

Yes, the performance targets that we gave for the Life business and ROE improvement in the February 2 update did specifically exclude the impact of block transactions.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay, but I am more thinking about at the holding company in terms of being able to deploy, to get capital to the holding company. This is additional capital, correct?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

This would be additional capital that was above and beyond what we had in our basic operating plan, yes.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay. Then are there any other changes in the -- whether it is the amount of capital that you look out over the next couple years in terms of pulling out of the reinsurance -- or sorry, the International companies? Or any other changes in that cash flow number that we should think about? Any other variances from what you gave us back in February?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

Well, the thing that I would think of immediately is the work that we are doing in Long Term Care with respect to the price increases on the in-force business and also as well on the new business, where we are introducing new products. Because the intent there is to not only provide good value in the current market to consumers but to, I will say, manage the profitability and the return level back to what is appropriate for that business in a time frame that is, I will say, more accelerated than what was contemplated in our operating plans.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay.

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

To the extent that more develops, we will update you as we roll through 2011, and we will speak to that on an ongoing basis.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay, thank you.

Operator

Eric Berg, RBC Capital Markets.

Eric Berg - *RBC Capital Markets - Analyst*

Thanks very much. Good morning. Given all the favorable developments that you have detailed in this call -- the improving delinquencies in domestic MI, sharply improved loss ratio in your Lifestyle Protection business, the strong sales in Life Insurance and Long Term Care, and the improvements that you say have been going on for several quarters -- why aren't we seeing an overall --? I mean, where the money is, is of course in the ROE of the Company. Why aren't we seeing an improvement in the ROE of the Company if your strategy is working? And when will we see it?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Well, Eric, this is Mike. First of all, I think it is very clear you are seeing that in International. As I mentioned when you look at the Lifestyle Protection improvements, the continued performance in Australia and Canada in aggregate on a fairly notable piece of capital, you are going to get a 100 basis point improvement to 13%. Which is right in line with what we laid out as our track and our goals in our February investor update.

Secondly is U.S. MI is still losing money. So we have some transitions underway; Kevin has addressed those. But it is what it is.

Now as Kevin also noted in I think it was back in February, but in general as we have talked to investors, when you see a turn, a turn is an opportunity. Because you get crossover points of burnout on those 2005 to 2007 books, and then the dynamics of the new kicking in, which I mentioned right now are in that 19% of your risk in-force, and we are going to work hard to improve that.

The crux of the issue is why Pat went into the topics he did concerning Life Insurance specifically, that has a substantial part of the capital base; and the ongoing actions to not only see the good performance of the new LTC block come through, but to improve through pricing actions the performance of the old LTC block.

So it is really getting -- when you just do the math, it is getting those actions and strategies executed in Retirement and Protection that helped turn the entire enterprise. But I think you have to look at the component parts first; and then look at the aggregate second; and of course we are going to do everything we can to accelerate that transition.

Eric Berg - *RBC Capital Markets - Analyst*

That was a helpful -- that helped me think about it. That was really great. One final question actually to Pat. By saying that one quarter does not make a trend, Pat, I infer from that with respect to the improving relative to previous quarters' persistency of the Term Life Insurance business that it is just too early to declare victory. Is it possible that the problems that you suffered will abate?

Or are you trying to convey to us through your comment that you really believe that this was a blip, but -- probably a favorable development in the quarter, but a blip?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO*

Yes, looking at the persistency in the Life business, give you a little bit more information. In the fourth quarter we did see a modest amount of favorability, not statistically significant, to persistency. In improved the quarterly earnings versus the third quarter by about $2 million after-tax.

That was a bigger number in the first quarter, $5 million. But I would say this quarter is the first statistically significant shift.

We did expect that the impact of persistency on those large 1999 and 2010 year term blocks would moderate and that the impacts relating to that would diminish over time.

It did move a little bit faster than I expected in the first quarter, so I really don't want to extrapolate that. I think there is a fair amount of statistical variation in the quarter-to-quarter numbers. So it would be prudent to get another quarter or two under our belt and we will see what develops.

But I am encouraged and I am not surprised by what we saw in the first quarter.

Eric Berg - *RBC Capital Markets - Analyst*

Okay. That is a helpful elaboration. Thank you.

Operator

Joanne Smith, Scotia Capital.

Joanne Smith - *Scotia Capital - Analyst*

Hi. Good morning. I just want to go back to your comment about the further home price depreciation. If that is the case and we still have another 5% or 6% to go, how can we determine the potential impact on both delinquencies but also on loss severity at the U.S. MI? And then I have a follow-up.

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

Joanne, this is Kevin. When I think about it, I will take it back, in backwards the way you asked the questions. From a severity standpoint we are sort of maxed out on severity already.

We are paying the full claim amount. It is not as if additional home price declines is going to impact our severity more.

And our severities have been relatively stable for some periods of time. Operating I want to say in about a 110%, 111% type level. So not a lot more pressure there.

Then as I think about it from a frequency standpoint or from a new delinquency development standpoint, our delinquencies have been developing and default -- have really -- we burnt through the people that can't pay for their mortgages. We burnt through the lousy credit profiles and the tough mortgage related product. And even as home prices have continued to bump around and decline, we have continued to experience those declines and new delinquencies that we have been seeing quarter-over-quarter.

I think one of the more important influences going forward from my perspective is probably what is going to be going on with job growth. I think job growth does a couple of things for you.

Number one, it certainly puts people that are in stress positions with their mortgage today in a better position to be able to handle their obligation, to stay in that home, perhaps to get back on track if they have been knocked off course financially. Additionally it provides some confidence to the market in terms of bringing some buyers back into the market and helping with some of the overall turnover levels and taking some of this distressed inventory off the table.

So we have always thought that the number could be as deep as a 19% ultimate decline. So that was within our realm of planning as we went into 2011. The thing has moved out maybe a point, but it has been really well within what the range we expected ultimately to play through in 2011.

Joanne Smith - *Scotia Capital - Analyst*

Okay. I guess I just -- when I think about the investment properties that may be still hanging around there, I am just thinking maybe somebody is going to say -- oh, my goodness; it is now down to into 5%; I am just going to walk away from it.

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

Yes, I don't have the exact numbers in front of me right now; but my expectation is that most of that investment property has already hit the delinquency bucket and is effectively being reserved for.

The other thing I would add to it -- and this is an important point to this discussion -- is in this business historically what you see is you've got year-over-year books of business coming on. When you put those new books of business on, there is a natural expectation that in the first 18 to 24 months you're going to be hitting some of the peak delinquency development for those new books.

Our last -- our 2009, 2010, and experience in our 2011 books of business, they are simply not throwing off the traditional level of delinquencies that one would expect, even in a period where you've got this home price decline and lousy employment going on.

I will just throw this out for you. Our 2010 book has maybe 34 delinquencies in it. Our 2009 book -- I want to say it's under 140. So maybe we added three or four delinquencies in the 2010 book this quarter.

But when you think about that in the context of what is going on in this market, I think we are starting to see a credit turn. And I think that is a positive sign.

Joanne Smith - *Scotia Capital - Analyst*

Thanks, that's great. That's very good color. Thank you.

Also, Mike or Pat, I have a question on -- it was a comment that wasn't necessarily highlighted. But when you talked about the securities that were available to support the book of U.S. MI that are outside the holding company in the Lifestyle, are there any regulatory approvals that you would need if you were to take some securities from MI Canada and use those to support losses?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

It's Mike. I'd look at it this way. Any time you are in the regulatory process, there are certain set standards.

Certainly Canadian securities are viewed quite positively. But there are other securities as well. Any of those go through either a set of rules or a set of evaluation, and that is the standard approach.

Joanne Smith - *Scotia Capital - Analyst*

So there wouldn't be like specific approval to remove certain securities that are supporting liabilities up in Canada and bring them to the U.S. MI?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

I am not getting into details of any structural approach fundamentally. But I look at securities that we hold; we have certainly evaluated ones that are, I will say, sensible or potential strategies such as I outlined. Though no decisions have been made on those. So we have already given that plenty of thought.

Joanne Smith - *Scotia Capital - Analyst*

Okay. Thank you very much.

Operator

Ladies and gentlemen, this concludes Genworth Financial's first-quarter 2011 earnings conference call. Thank you for your participation. At this time, the call will end.
