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GNW - Q3 2011 Genworth Financial Inc Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Genworth Financial's third-quarter earnings conference call. My name is Corine and I'll be your conductor 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 call 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 Georgette Nicholas, Senior Vice President of Investor Relations. Ms. Nicholas, you may proceed.

Georgette Nicholas - *Genworth Financial, Inc. - SVP IR*

Good morning and thank you for joining us. Our press release, financial supplement, and additional information regarding U.S. Mortgage Insurance and Investments 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 Marty Klein, our CFO. Following our prepared comments we will open the call up for a question-and-answer period.

In addition to our speakers, Pat Kelleher, Executive Vice President and Chief Executive Officer of our Retirement and Protection segment; 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, Insurance Products, for our Retirement and Protection business, will be available to take your questions.

With regard to forward-looking statements and the use of non-GAAP financial information, some of the statements we make during the call this morning 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 and our earnings release and the Risk Factors section of our most recent annual report on Form 10-K filed with the SEC in February 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 International segment results, please note that all percentage changes exclude the impact of foreign exchange unless specifically noted.

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

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

I would like to make five key points this morning. First, we saw more stable operating performance this quarter. Second, we have continued to maintain appropriate risk buffers given uncertainties in the global environment and improve our financial and investments profile, all in support of bondholders, shareholders, and customers.

Third, we are managing new business volumes, reinsurance, and expenses to benefit statutory performance and our desired capital generation and use profile.

Fourth, we have no current plans to contribute additional capital to the U.S. Mortgage Insurance business, and we see sufficient claims-paying ability in the business. I will cover a fair amount of detail here on risk containment, claims-paying ability, new business, and the path going forward in a few minutes.

And fifth, we are pursuing a number of steps to better align our businesses and reallocate capital to enhance shareholder value while maintaining sound risk buffers. Let me provide some additional perspectives on several of these points.

Starting with the quarter, I was pleased with the direction in Life Insurance results. Long-Term Care remained mixed. The new block is performing well and we continue to take actions to improve the performance of the old block, where our second round of price actions is well underway.

Lifestyle Protection margins have improved nicely over full-year 2010 given pricing, risk, and cost actions. And we will maintain a strong focus on margins with the lower growth environment in Europe, which pressures revenues.

Canada results convey the dynamics of a slowing revenue profile given smaller markets and books of business in recent years. And as a result we see this platform shifting to being an even stronger capital generator, with relatively stable earnings.

Australia is transitioning as expected, absorbing the loss pressures coming from the early 2011 Queensland flood events as well as the combined pressures of higher interest rates and living costs, an elevated currency, and lower consumer spending on some small business owners and consumers.

We see the modest declines in home values as a positive, which aid in digesting prior gains, and would expect interest rates -- after a reduction earlier this week -- to remain stable or even be reduced further, thereby aiding consumers.

I will now turn to the second point, maintaining appropriate risk buffers while continuing to improve our financial and investments profile. We carry a substantial cash reserve at our holding company of at least two years of debt service coverage, finishing the quarter with approximately $700 million of cash or highly liquid securities. We also expect at least $350 million in dividends from the International segment on a full-year basis.

We have continued to actively manage our investment portfolio, reducing certain exposures, particularly in financials, and believe our European portfolio is well positioned. We have also managed our capital levels carefully at the operating platform level and have been very active over the past 10 years in executing forward interest rate hedges to protect against low rate environments; and these have produced material economic benefit totaling nearly $2 billion, which you can see on the balance sheet under OCI.

Looking ahead, we have taken actions to add to our risk buffers to provide for market uncertainties and still position us to redeploy capital for shareholder value, as we pursue certain business portfolio strategies that I will outline in a few minutes.

Turning to my third point, we are actively managing a number of levers to benefit our statutory performance and our capital generation and use profile. In Life Insurance, we have repriced products, chosen not to follow certain competitive pricing actions, and expanded use of reinsurance.

In Long-term Care insurance, we introduced our next-generation product with higher pricing to reflect today's lower rates while continuing a focus on preferred risks. We expanded use of coinsurance for first-half 2011 sales, and will coinsure 40% of our new generation LTC product.

Smaller markets in Canada and Australia have led to smaller books of new business. So as we look forward over the next few years we expect capital generation to increase as these older books run off.

In Lifestyle Protection we are pursuing the most profitable opportunities, and across our platforms we have taken or are completing cost streamlining actions to enhance competitiveness and adjust to the realities of slower markets or where we have further concentrated our product and distribution focus. These expense actions will provide a gross benefit of over $70 million, with a fair portion flowing through to benefit 2012 earnings.

This brings me to the fourth area, U.S. Mortgage Insurance, and I would like to outlines several key perspectives here. Let me begin by noting that while we saw improved financial performance versus the prior quarter, there is a way to go here for recovery, given a tough environment. So our first focus remains on risk containment and claims-paying ability.

On this front we remain active in the area of loss mitigation and continue to drive substantial results, with the year-to-date benefits reaching $420 million. I would remind you that the bulk of our benefits are derived from loan modifications. Rescission benefits no longer play a material role in our loss-reserving provisions or our quarterly results, as we pursued most loan rescissions earlier in the process than some competitors, an important distinction.

In assessing our in-force book we place a strong emphasis on analyzing the strength of our claims-paying ability and do this in three ways -- through internal analysis; third-party independent analysis commissioned by us; and third-party independent analysis that regulators and GSEs commission periodically.

With these inputs, we see adequate claims-paying ability and positive value in the business. Of course, these analyses incorporate a range of inputs and assumptions, so we continue to update these analyses regularly as market conditions change.

I would note our claims-paying ability and business value have benefited from our mix of business, prior loss mitigation actions, and the layering in of profitable new business.

This brings me to the second area of focus concerning U.S. Mortgage Insurance, which is the ability to write new business and associated capital considerations. As background, we do find the new business returns above 20% to be very attractive, and our post-2008 books of business are outperforming expectations.

Mortgage Insurance penetration is up versus the FHA, market share is being re-allocated after exits by competitors, and the industry, despite consolidation, retains capacity to meet demand.

So let me begin by noting that in evaluating the ability to write new business several factors must be considered, including risk to capital ratio analysis which incorporates assessing the quality of the products and mix of risks comprising the in-force portfolio, claims-paying ability analysis, including the strength of relative reserve per delinquency levels; next, assessment of where books of business are in hitting peak losses and coming back down the loss curve, and finally, review of the benefits provided by capital optimization strategies or prior capital support actions, and how steps to strengthen reserve levels support surplus and claims-paying adequacy.

In some discussions, the focus is simplistically placed on risk-to-capital ratios. But the reality is more complex, something we believe most stakeholders appreciate.

So, we think about our ability to write and willingness to support new business on three fronts. First, we currently maintain regulatory waivers or other authorizations from 46 states that permit the Company to continue writing new business while its risk-to-capital ratio exceeds 25-to-1. Second, Genworth maintains separately capitalized, licensed, and operational legal entities to write new business for states where waivers are not in place.

I would draw your attention to one of these subsidiary entities in particular, called Genworth Residential Mortgage Assurance Corporation, or GRMAC, which is capitalized with approximately one year of new business capacity nationwide, depending on new volume levels. This entity can be used with GSE approval, and currently three states are being written out of GRMAC. This is a valuable asset, and I want to make sure everyone appreciates the flexibility it provides going forward.

Third, our strategic focus with GSEs and regulators has shifted towards the ability to create alternative structures, including investments in new underwriting entities to support future business. These could be funded internally, externally, or through a combination of the two, while we separately manage our existing in-force responsibly and with risk containment and claims-paying ability in mind.

Certainly we have seen the dialogue around the possibilities for such new entity strategies accelerate since the exits of Old Republic and PMI from the MI market. Substantial work remains here, and we are intently focused on it.

In this connection we do see this path, if made available, as attractive for existing policyholders led by the two GSEs, Fannie Mae and Freddie Mac, regulators, the industry, and for parties who want to bring additional capital to the industry.

On last quarter's call we discussed four demanding screens which would inform any future decision to provide additional capital support to the U.S. MI business. While market conditions continue to change and we take actions and make progress on several fronts, collectively these factors do not warrant providing additional capital to U.S. MI at present, and we believe that we have other new business alternatives in place for 2012.

So the four screens remain. And I would emphasize, a major factor in this analysis is substantial progress in the enablement of alternative structures, including investments in new underwriting entities.

This brings me to my final topic, repositioning the business portfolio to tighten our focus, rebalance portfolio exposures, and support capital redeployment to enhance shareholder value while maintaining appropriate risk buffers. We have evaluated and worked on a number of areas. Our recent Medicare Supplement sale is one such example, and we continue to work on or assess other smaller asset sales.

More significantly, last night we announced our intent to pursue a minority IPO of our Australian mortgage insurance business targeted for the second quarter of 2012, subject to market conditions. Under U.S. GAAP the book value of the Australian MI business is $2 billion. This is similar to the strategy we executed in 2009 for the Canadian MI platform and would include sale of up to a 40% stake while maintaining a control position.

We have seen clear benefits in diversifying and deepening the capital base in Australia through expansion of third-party reinsurance and the Tier 2 debt issuance earlier this year. We believe this additional step adds to those benefits, while aiding Australia's future business growth strategies, mirroring capital flexibility benefits we gained from our Canadian listing, and supporting objectives to rebalance the portfolio, maintain control of our strategic mortgage insurance platforms in Australia and Canada, and redeploy capital.

Our efforts have included appropriate upfront consultation with our regulator, and I would point out that transactions such as these are subject to customary regulatory reviews and approvals as part of the normal execution process. Given securities regulations we are highly limited in what we can say regarding this proposed transaction at this time.

These actions, coupled with other business realignment, capital optimization, risk buffer, and tax asset utilization strategies support our goal of accelerating redeployment of capital to shareholders into 2012 with a focus on share repurchase, given our valuation. In aggregate, these actions are targeted to generate material redeployable proceeds by mid-2012, and we will update you on our plans and progress.

So I'll summarize as I did last quarter. We recognize that the current market discount applied to Genworth dramatically undervalues our underlying business platforms and their potential. We fully intend to unlock that value and potential through a combination of effective execution of our current business plans; realistic assessment of the current and future prospects of our business portfolio; thoughtful analysis of risks and opportunities; optimizing capital deployment, liquidity, and support of our holding company; and taking prompt and appropriate actions to substantially enhance the value of our business portfolio.

Now let me turn it over to Marty.

Marty Klein - *Genworth Financial, Inc. - SVP, CFO*

Thanks, Mike, and good morning. I will begin today with the segment results in the quarter, followed by an update on our capital management progress, and wrap up with some comments on items impacting future quarters. I will start with the International segment where underlying performance for that quarter was solid.

Unemployment in Canada and Australia is stable. The housing markets in both platforms are sound overall, although certain regions are feeling pressure. In Europe, several countries remain under stress, affecting employment, housing and consumer lending levels, which remain low.

Against this backdrop excluding tax adjustments, reported earnings were flat year over year. There were tax adjustments in both the prior year and this quarter, resulting in a higher tax expense of $23 million year over year.

Looking past those tax adjustments, our earnings decreased 14%, excluding FX, driven primarily by increased losses in specific regions within our International Mortgage Insurance platforms. Capital ratios in Canada, Australia, and Lifestyle Protection remain strong, and the businesses are on track to meet their dividend targets for the year.

Turning now to performance by each business. In Canada, operating earnings for the quarter were down 18%, excluding FX from the prior year, from lower revenue as the in-force portfolio seasons, as well as an increase in losses. The underlying performance of this business remains strong, but continues to feel pressure from the Alberta housing market, primarily due to a higher average claim size on delinquent mortgages originated in 2007 and 2008.

In Australia, excluding the current year tax adjustment, operating earnings were down 4% from last year. The loss ratio remained flat at 48% sequentially, reflecting the slower recovery in Queensland from flooding earlier in the year and continued pressure from higher interest rates, increased living costs, lower consumer spending, and a strong Aussie dollar, which impacts tourism and exports.

The revenue line in this environment remains pressured for most of our Mortgage Insurance platforms. However, given the smaller books of business being written in more recent years, as the larger earlier books roll off these platforms will generate excess capital for the Company over the next few years.

In Lifestyle Protection, excluding the prior-year tax benefit, earnings were up 5% from the prior year and flat sequentially. Despite decreased revenues from lower consumer lending, operating margins have improved this year by 400 basis points as we benefit from price actions, experience lower claim registrations, and manage expense levels.

Moving to Retirement and Protection, operating earnings increased 8% to $120 million. Most of the results and development we saw this quarter are similar to those we saw in the second quarter, with a big difference being performance in variable annuities, which was hurt by the tough market environment.

Life Insurance earnings were $72 million compared with $33 million in the prior year. The in-force performance improvement that we saw was primarily due to better term insurance persistency as 10-year post-level lapse rates declined on lower levels of exposed premium. Sales are expected to moderate over the coming quarters as we have raised certain product prices, given factors such as low interest rates, or chosen not to follow certain competitors' price reductions. In addition, we have increased our use of the new business reinsurance to manage capital effectively.

Long-term care earnings were $31 million compared with $44 million in the prior year. We are still experiencing higher new claims and lower claim termination rates in older issue policies, driving the overall loss ratio to 71% in the quarter. Our previously announced premium rate increase on the majority of the older issue policies will begin having a material impact starting next year, adding about $50 million in additional premium in 2012 and about $60 million in 2013 when fully in effect.

We are closely watching the performance of the older business and will assess additional rate actions accordingly. We continue to see sound performance across the block of newer issued policies, with a loss ratio of 51%, which is in line with prior quarters. Long-term Care is a good example of where we have significantly increased our utilization of reinsurance to manage risk and capital utilization.

Wealth Management earnings were $12 million and the business continued to experience positive net flows of $446 million despite a challenging market.

Retirement Income's spread based or fixed annuities earnings were $20 million compared to $16 million in the prior year. However, Retirement Income fee-based or variable annuities had operating losses of $15 million compared with $10 million of earnings the prior year.

Variable annuity results were hurt by declines in the equity markets, which accelerated DAC amortization and increased reserves. Net income was also hurt by hedge ineffectiveness, given higher volatility, and basis risks due to fund performance. With variable annuities moving into runoff, we are looking at ways to enhance and expand our product management and hedging strategies to reduce GAAP earnings volatility as well as the potential impact on statutory capital.

Turning to U.S. MI, results continued to be impacted by weakness in the U.S. economy, with unemployment hovering around 9% and a struggling residential real estate market. We still believe the home price decline will continue another 5 to 6 points extending into 2012 for a total peak-to-trough decline of about 25% on the FHFA Index.

Our total flow delinquencies increased 1% sequentially, with new delinquencies down 14% year-over-year but up 10% sequentially, reflecting typical seasonal development. Redefaults on modifications continued to be within our ultimate expectation of 25% to 30%.

Shifts in the payment status, or aging, was relatively stable while our cure rate overall was flat in all groups, consistent with our reserve strengthening in the second quarter. Delinquencies with greater than 12 missed payments grew 1 point from last quarter to 46% of the total.

Our average flow reserve per delinquency is relatively flat at $28,800, down slightly from $29,200 from modest mix changes in new and existing delinquencies. Our total amount reserved for flow delinquencies by category is consistent with the second quarter.

Loss mitigation savings, primarily from loan modifications, were $420 million year-to-date, on track to achieve the higher end of the targeted $400 million to $500 million full-year impact.

We estimate our market share has increased to between 15% to 16% for the third quarter, which reflects a continued shift of the market from the FHA as well as fewer competitors.

From a statutory capital perspective the NAIC's expected adoption of a new Statement of Statutory Accounting Principles, SSAP 101, related to the admitting of deferred tax assets will not have an impact on our U.S. Mortgage Insurance companies since the DTA is not admitted.

Moving to Investments, the global portfolio is performing well. Core yields are flat at 4.7% in the quarter as we are optimizing cash balances and product portfolio funding levels. Impairments were up slightly in the quarter and from prior year, given market conditions. We have $885 million or 1.2% of the portfolio in European periphery exposure, which is down $162 million from second quarter primarily due to opportunistic sales.

Our European periphery sovereign exposure is less than $15 million in Spain; less than $4 million each in Ireland and Italy; and we have none in Greece and Portugal. Overall direct exposure to the periphery is only $335 million, while other exposure is indirect, issued primarily by subsidiaries outside of the European periphery or through multinational companies.

Our unrealized loss position on our European periphery exposure is $50 million as of September 30. We have posted some material to the website to provide some additional information on our European exposure.

Shifting to rates, the low interest rate environment presents asset liability management challenges for the insurance industry. For us those impacts are not very significant in our Mortgage Insurance and Lifestyle Protection businesses given their short product duration. The main impact of low rates is in our life, long-term care and fixed annuity lines.

We have actively managed and hedged this risk for many years, not only through duration of management of our bond portfolio but also through extensive use of hedges. In particular, for our long-term care business we actively hedge cash flow reinvestment risks, with about 75% of future cash flows on in-force business over the next 10 years receiving yield enhancements if rates stay low.

While low rates will certainly impact earnings we believe our risk management programs make this pressure quite manageable. As an example, assuming that new money yields remain at current levels through 2014, and if there are no changes to investment strategy, earnings for the R&P businesses in 2012 would be minimally impacted. That impact is estimated to be $0.06 per share in 2013 and $0.10 per share in 2014. Potential DAC unlocks would have an incremental impact of about $0.02 to $0.03 per share over that period.

Turning next to the holding company, we remain very focused on maintaining appropriate risk buffers. We are also making headway in our strategy to create further dividend streams to the holding company, particularly in Retirement and Protection, which I will discuss shortly. These are important steps in maintaining our financial strength for policyholders, bondholders, and shareholders.

At the end of the third quarter the holding company held cash and liquid securities of approximately $700 million, which is about $150 million above our cash buffer target of 2 times debt service coverage. We expect to maintain a similar excess as we head into 2012, and our 2011 plan of $350 million in dividends from our International businesses remains on track.

Going forward, an important part of our strategy is to reestablish ordinary dividend capacity from our life companies by 2013. We are implementing and executing several initiatives to grow statutory earnings and unassigned surplus in order to restore this capacity.

Such initiatives include managing product mix and volumes of new business, use of reinsurance, and executing potential life block transactions. Proceeds from the initial transactions are expected to remain in the life companies to build their unassigned surplus positions. We are progressing on our first such transaction and will provide updates at the appropriate time.

Our sale of the Medicare Supplement business freed up $205 million of capital, which is a bit lower than the $240 million initially estimated due to some subsequent portfolio and tax actions, which also provided capital benefits and reallocated tax impacts. We are still intending to dividend up to the holding company the majority of these proceeds, which is likely in a couple of steps over the next few quarters, subject to regulatory approval.

Looking ahead to the fourth quarter, in conjunction with the plans Mike discussed to pursue a minority IPO of our Australian Mortgage Insurance business, we anticipate a tax charge in the fourth quarter of up to $80 million related to this planned transaction. Also in the fourth quarter we plan to change our operating business segments to better align our businesses. Under this new structure we will operate through three divisions -- Insurance and Wealth Management; Mortgage Insurance; and Corporate and Run-off.

The Insurance and Wealth Management division will include the following operating business segments. U.S. Life Insurance, which will include our life insurance, long-term care insurance, and fixed annuities businesses; wealth management; and International Protection, which will include our Lifestyle Protection insurance business.

The Mortgage Insurance division will include the following operating business segments, U.S. Mortgage Insurance and International Mortgage Insurance. The Corporate and Runoff division will include the Runoff segment in Corporate and Other activities. The Runoff segment will include variable annuities, our remaining Medicare Supplement insurance, institutional products, and other non-core businesses.

This alignment of businesses will allow us to sharpen our management focus on common aspects within each group of businesses while taking advantage of current financial, risk management, and product synergies. We intend to reflect this new segment reporting in our fourth-quarter earnings release and in the 2011 10-K.

Finally, we will adopt the FASB's new DAC guidance this January. We expect the impact will be a reduction in retained earnings and stockholders equity of approximately $1.3 billion to $1.6 billion. We expect to defer fewer costs, but record lower amortization, resulting in decreased earnings going forward. We are evaluating a number of options for adjusting distribution and marketing structures to mitigate the effects of the standard, and we will provide an update on the expected earnings impact on our fourth-quarter earnings call.

In closing, we remain extremely focused on addressing the performance and mix of our businesses, managing risk, generating capital, and increasing value for investors. With that, I would like to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Andrew Kligerman, UBS.

Andrew Kligerman - *UBS - Analyst*

Hey, good morning. With regard to the reinsurance transactions you mentioned in the press release and then as I understood it in your dialog just now, you've got a 40% coinsurance arrangement on long-term care going forward. Marty mentioned that he was doing some work on a block of life insurance.

Could you elaborate a little bit more on the types of reinsurance that you are seeking and the potential capital that could be freed up? And I have a follow-up.

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

Thanks, Andrew. Let me hand that over to Pat Kelleher. Pat?

Pat Kelleher - *Genworth Financial, Inc - EVP, President & CEO of Retirement & Protection*

Okay. First, with respect to the reinsurance of new business, really what we are doing there is we are managing the allocation of capital to product lines to be within our target budgets for capital generation and capital usage as we move through the year. This is all part of the strategy that we've got to basically engineer a series of changes to the statutory earnings and unassigned surplus positions of the life companies, such that we bring the life companies to the point where it is paying annual regular dividends starting in 2013.

I would probably put this in the larger context -- is the changes you mention are a part of that strategy. So first thing we did was implement the targeted pricing changes, increasing price in Long-term Care which Mike referred to in his conversations. And at the same time, we sought out reinsurance, which is real risk transfer reinsurance; and in particular a good portion of it is coinsurance.

What that does is give us not only capital relief relating to the risk transfer, but it also provides financing for the acquisition costs of the business. And that helps us manage the utilization of capital.

Like if I look at the impact that we have had, say, in the second and the third quarter, that is already providing savings of capital of about $25 million to $30 million a year in terms of the new business -- I'm sorry, $25 million to $30 million a quarter in terms of the new business capital utilization, which is pretty material when you put it together and look at it from a whole year perspective.

We have also at the same time increased target spreads for new annuity production. And moving beyond the new business, we're supplementing these changes with what I will call event-driven increases in earnings like Med Supp sale and the selected life block transactions.

So think of those transactions as bigger and more transformational. They take a little bit more time to execute, but we are making good progress on those during the current quarter.

Marty also mentioned that we are looking to minimize gains and losses associated with equity market impacts, and that is an important focus. So you put all these things together, they are designed to improve statutory earnings, create dividend capacity in line with the plan that Mike outlined.

Andrew Kligerman - *UBS - Analyst*

Great, so for now I guess I should just think the few hundred million that you have mentioned around the life blocks is some -- we will get more clarity as it progresses; is that it?

Pat Kelleher - *Genworth Financial, Inc - EVP, President & CEO of Retirement & Protection*

Exactly.

Andrew Kligerman - *UBS - Analyst*

Okay. Then in terms of priorities, with the capital from potential IPO of a minority stake in Australia, with the gradual freeing up of capital, I guess I would like to know, Mike, what your priorities are. You mentioned share repurchases on the call. You mentioned that capital I guess would be needed to start up new U.S. MI entities to work around some of these risk to capital issues.

So what are your priorities as you generate this cash and proceeds? Where does it need to go first, second, and third?

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

Well, Andrew, just again putting it back in a broader context, we are aiming for significant proceeds; and we have very much a clear focus on share repurchase as a priority, given our valuation.

Now, we do, as you point out, have a number of initiatives in process, whether you look at the Australian IPO, the Med Supp proceeds. I pointed toward some other smaller asset sales that we continue to work on or evaluate.

So as we line those up and look at redeployable amounts we will of course look at the risk environment to make sure any specific level of redeployment is sound, and then move forward. I do think it is important to point out that in some cases you could also have some proportional debt paydowns, along with something like a share repurchase to maintain the coverage ratios where you want them. But clearly, as I stated, our focus of redployment is on share repurchase. And any other uses would have to earn their way into that mix. You know, I outlined four demanding screens previously on anything having to do with U.S. MI.

Andrew Kligerman - *UBS - Analyst*

Mike, how much excess capital do you currently have and how soon could you begin the repurchases if you so choose?

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

Well, first I'm not going to speculate on timing beyond my stated comments of wanting to accelerate the repurchase or other deployment of capital into the 2012 timeframe. Now, we're going to move as expeditiously as possible while being prudent, and we will update you periodically on that process.

Now, let's go back to your point. First, if you looked at the business today and you said where do you have the greatest excess capital, while you have excess capital versus various hurdles within each segment where you look at what you would term the most fungible excess capital is in the International segment.

And hence, you do see dividend streams coming up to the holding company. Capital within U.S. MI, it's staying within U.S. MI to be used there. Capital currently that's within the life business is staying there.

Though as Pat laid out, we are trying to back, again expeditiously, to regular dividends on the one hand and event-driven transactions on the other. So we are going to look at this quite intently, quite actively.

I would like to move, again given the valuation, as expeditiously as possible. But you can expect us to give you an update on our progress, our plans certainly as we move through, for example, fourth-quarter earnings.

Andrew Kligerman - *UBS - Analyst*

Then just lastly, the capital needed for these new entities in U.S. MI to work around the 27.5-to-1 consolidated risk-to-capital ratio, how much capital might that require in the near and intermediate terms?

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

Well, first, I was trying to be very thorough in my comments to say how should one think about capital measures; and it is not just as simple as a risk-to-capital ratio. There is a lot of context, and I walked through several points around that.

First of all, we have waivers in place in 46 states, as I alluded to. And we think we have a better book of business, and we give visibility on that book of business.

Second behind that we have the GRMAC entity that I talked to that is capitalized today as we speak with what we would estimate to be about a year's worth of production. Again it is operational and licensed, and we see that being active as necessary on a nationwide basis.

Then you get past those two vehicles or those two paths, and our focus is on new types of underwriting entities. It's premature to comment around those specifically but it is in active regulatory discussion. So I think we have a good corridor in risk-to-capital and the way we have managed ourselves to begin with. We have GRMAC right behind that.

And again we would have to see something else develop to make -- I will say, enter the mix to work with some of these new entities. And we will see how those discussions develop.

Andrew Kligerman - *UBS - Analyst*

Great, so it sounds like no new capital may be needed in the next year or so. Is that the way we should take that?

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

I think I was pretty clear in my comments about how to think about it.

Andrew Kligerman - *UBS - Analyst*

All right. Thanks a lot.

Operator

Donna Halverstadt, Goldman Sachs.

Donna Halverstadt - *Goldman Sachs - Analyst*

Good morning. One of the things I wanted to ask about goes back to a comment you made on your second-quarter call when you said you recognized that the characteristics of Life and Wealth Management compared with MI businesses may appeal to different investor groups. Then you said you are taking steps to facilitate the option of separating the Company along those lines.

I think some people took that to mean a complete separation. With your announcement of Australia, sure you create a new vehicle for people who want to invest in MI; but the folks who want to invest in Life are still left with a hybrid Life/MI insure.

So do you see the Australian IPO move as consistent with or inconsistent with your prior commentary? And more generally how are you thinking about long-term business mix as you pull these different levers?

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

Thanks, Donna. It's Mike. Two thoughts on that.

Clearly if you look at the two thrusts of what we do, one is global Mortgage Insurance and the other is Insurance with a protection orientation that is complemented by the Wealth Management business through independent advisors. Now, those businesses, some have performed quite well and consistently; some have been in various stages of transition.

But as I pointed out, we wanted to concentrate the focus within each of those two areas around our best platforms and our best value proposition and maintain the option in the future, if we can create more shareholder value, to be able to pursue distinct paths.

That is just not where we are today. We have financial synergies that benefit the holding company as an example. We have various businesses in stages of transitions. So we will certainly consider that in the future, but that is not where we are today.

I think as I have talked to investors about this, what they have appreciated is that the management and the Board is open to considering those types of things if that creates more value for the Company. And that is exactly what I have been trying to convey and that is what we have had as far as, I would say, quite constructive discussions with the investment community.

I will say that the alignment that Marty walked through, though, does give you some synergies around the consumption of your tax assets. So after achieving some operational and financial synergies we're in a much better I will say situation today to utilize those tax assets with the alignment that Marty articulated.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay. Then specific to U.S. MI, the potential new underwriting entities, just to be clear, would investing in those be subject to the same four screens that you are applying to your current MI writing vehicles?

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

Yes.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay. Then -- so just theoretically, and let's put aside the fact that you are putting quite profitable new business on the books, and put aside the potential alternative of these new underwriting entities. But theoretically if you wanted to think about putting U.S. MI into runoff, would that be an easy decision to make in terms of no collateral damage?

Or to the extent that regulators and GSEs did not want you to do that, could the MI state regulators get the life insurance state regulators to make life hard for you? Is that a consideration as you think through alternatives in the U.S. MI business?

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

Well, I guess I would think about it on two fronts, because as you said you're asking a theoretical question. First in this type of market environment we have continued to update all analysis of all scenarios, because if anything this market has always had some twists and turns, and it's not the greatest economy or the greatest housing market out there.

So one of the scenarios of course that you have to update and evaluate is a company-managed or a company-sponsored runoff scenario. So we do that on a rigorous basis, because you have to keep that in amongst all of your options.

I also pointed out I think we have several other avenues with the waivers in place, with the GRMAC in place, that give us quite attractive flexibility. And again when you look at our reserves, our reserve per delinquency levels, the quality of what we put on the balance sheet can be differentiated when compared to other situations.

Now when you take any action in any insurance business, of course you're going to factor into your decision process regulatory decisions and any attendant effects. But I think that is just part of a normal business approach.

Donna Halverstadt - *Goldman Sachs - Analyst*

Great. Thanks for taking my questions.

Operator

Steven Schwartz, Raymond James.

Steven Schwartz - *Raymond James - Analyst*

Hey, good morning, everybody. Donna's question -- I have got to say, Mike, I think I am hearing something different. I think I heard in the first-quarter U.S. MI we should keep it for the tax reasons. In the second quarter I think you were saying, look, nobody is giving us any value for the tax; therefore we might as well split it or at least investigate splitting it. Now it seems to me you're saying, look, that tax is important.

Is that a way to summarize this? Everybody has got right to change their mind; so I understand that. But is that the way to summarize this?

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

No, that is not the way to summarize it. I think you are taking comments and chaining them together with a different rationale than is there.

Steven Schwartz - *Raymond James - Analyst*

Okay.

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

First, there are tax assets. That is just a fact; you look at them. Last quarter I was asked the question basically -- is that the head of the dog or the tail of the dog? I said you look at them, but you don't let tax assets drive your strategy.

But if you take that forward I have simply pointed out that the alignment that we have now does optimize the utilization of those assets. Now when you go back to looking at a portfolio overall let's recall what we have.

We have a holding company. Underneath the holding company, under our current segmentation, you have International, U.S. Mortgage Insurance, and you have Retirement and Protection. International is what is paying dividends to the holding company.

You do not have ordinary dividends at this point for Retirement and Protection coming up. And you certainly don't have dividends coming up from U.S. Mortgage Insurance, which is effectively managing its risk in force. You want to have balanced cash flows or more balanced cash flows to a holding company; hence Pat's dialogue about all of the concerted effort to drive statutory earnings and get back to an ordinary dividend is quite relevant in this instance.

So when you are talking -- going back to Donna's questions about how do you manage a portfolio over time, you have to look at the entire enterprise, and look at what you have a holding company. If you took a different path how would you handle that; what would its capital structure would be; what would be the balance of the cash flows in it. And that is what you hear me articulating in pieces.

But don't build this around a tax asset assumption. That is not the driver here. That is just something that you will have an impact on one way or another. But, that is not what is driving the structure or the strategy.

Steven Schwartz - *Raymond James - Analyst*

Okay, if I can follow up with a couple of quickies. The waivers, are those annually approved? On the U.S. MI side of course is what I am talking about.

Kevin Schneider - *Genworth Financial, Inc. - SVP, President & CEO of U.S. Mortgage Insurance*

Steven, this is Kevin. They are -- it depends on the nature of the waiver. The initial waiver from the state of North Carolina was good for, I believe three years. It is revocable. However, the initial approval was for up to three years.

Some of the -- and then it depends based upon the unique state, whether it's an annual or a multiyear approval. So it varies across-the-board; but right now we feel in good shape with the level of the approval authority provided by the waivers.

Steven Schwartz - *Raymond James - Analyst*

Okay. Kevin, just a follow-up there. GRMAC, was that -- you said it was financed for a year's worth of business. Was that for the three states, or was that --?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President & CEO of U.S. Mortgage Insurance*

GRMAC is a state that provides additional flexibility. It is currently being used for three states that either didn't have statutory authority to provide the waivers or did not necessarily grant the waivers. So it is an entity that is operational. It has the appropriate licensing and capitalization.

And then what we get for that is -- we do have to get the GSE approval to write states -- or to write production in those states that have not granted authority. And so far we received that for the three states where it has been necessary.

Steven Schwartz - *Raymond James - Analyst*

Okay, and then final one. My understanding here is that the dividends from the life insurance company are limited. The greater than is limited by the unassigned surplus, which I guess you don't all have. Is there a simple way to explain how reinsurance would increase that unassigned surplus?

Pat Kelleher - *Genworth Financial, Inc - EVP, President & CEO of Retirement & Protection*

This is Pat. Yes, there is. I mean to the extent that you use reinsurance to monetize the value of business in force, the gain associated with the value of the business in force comes through as operating earnings and therefore increases the value of unassigned surplus. And when you use it for a new business, you look at it a different way; you avoid the strain associated with the new business because you are really financing it and passing the risk to a reinsurer who bears a portion of the risk.

And that avoids the initial loss associated with that. So the combined impacts of those strategies have meaningful impacts to earnings and unassigned surplus.

Steven Schwartz - *Raymond James - Analyst*

So on the blocks these would be Fin RE transactions, Pat?

Pat Kelleher - *Genworth Financial, Inc - EVP, President & CEO of Retirement & Protection*

These would be -- think of them as monetizations or embedded value type reinsurance structures.

Steven Schwartz - *Raymond James - Analyst*

Okay, got you. Thank you very much.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners - Analyst*

Thanks. Good morning. Two questions related to Australia. First, Australia is one of your best ROE businesses; so can you talk about the decision to potentially IPO part of that away? Weighing that against the redeployment of capital and the reduction of mortgage exposure.

Then second obviously the DTA on the MI side has been talked about repeatedly as part of a consideration in a spinoff. I understand market conditions are uncertain. But if you sold your piece of Australia at book value, does that generate any kind of material gain that could be placed against that DTA?

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

Geoff, Mike. Let me sort of take these in concert. First, you're right; we see Australia as an important business. I think it is a good platform with good potential. Our desire has been to maintain control of our leading private MI platforms, and I'd put both Australia and Canada in those categories as they act as a key source of earnings, capital, and returns. And certainly those benefit the holding company and the enterprise.

Our view is that this transaction helps you retain those benefits but it also helps you rebalance exposures in the portfolio; it helps broaden the Australian capital base. And I mentioned the moves we made with third-party reinsurance as well as Tier 2 debt issuance that have been a plus, and that supports future growth strategies for the Australian platform.

And it frees capital for redeployment, and when you look at our valuation, redeployment through share repurchase is quite compelling. So I think is we get to intersect a number of benefits.

Now, regarding your second question, with the realignment that we have in place, the realignment does let you take advantage of tax loss and income or gain offsets. Now I can't speculate on what the individual tax situation would be concerning Australia, and I am not going to. But we do have the alignment of the structures to create the offsets when you look at the losses that have been generated out of U.S. MI and the positives that have come out of International MI.

Geoffrey Dunn - *Dowling & Partners - Analyst*

Okay, but at this point you are not able or willing to confirm if there would be a gain situation if you sold it at book value?

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

It is premature to me to talk about tax items right now.

Geoffrey Dunn - *Dowling & Partners - Analyst*

Okay, thank you.

Operator

Jeffrey Schuman, KBW.

Jeffrey Schuman - *KBW - Analyst*

Thank you. I was wondering if you could clarify something about the life company transactions. I think Marty said that as you look at the reinsurance and some of the transactions that some of the capital that is generated would be retained in the life company at least in the near term. Is that because you need to improve the capital level there? Or is that related to the fact that you can't pull it out from ordinary dividends until possibly 2013?

Marty Klein - *Genworth Financial, Inc. - SVP, CFO*

This is Marty. To pull dividends out while we still have a negative unassigned surplus takes regulatory approval. The reason we want to leave the proceeds in, in the life block transactions, is to really build up that negative unassigned surplus and get it to be positive, to get us on track to have a regular dividend, as Pat said, in 2013.

Jeffrey Schuman - *KBW - Analyst*

Okay, so it is not a matter of capital levels, it is a matter of positioning yourself correctly for the dividend. Is that the right way to think about it?

Marty Klein - *Genworth Financial, Inc. - SVP, CFO*

Exactly right.

Jeffrey Schuman - *KBW - Analyst*

Okay. One clarification; the $80 million tax item that you talked about for the fourth quarter, should we think of that as -- is that also a cash item? Is that essentially a cash offset against the gross proceeds you might get from Australia? Or is it not a cash item?

Marty Klein - *Genworth Financial, Inc. - SVP, CFO*

No, it is not a cash item. With the intent to pursue this plan there is a potential that we might be repatriating earnings; so there is a tax liability that we are accruing in that context.

Jeffrey Schuman - *KBW - Analyst*

Okay, thank you.

Operator

Jon Heller, Canyon.

Jon Heller - *Canyon - Analyst*

Hi, I have a question for you on the capital levels at the life company. You mentioned in terms of getting to a point where you will be able to pay out dividends on a regular basis.

I was wondering; does the new business that you are writing put a strain on that?

Pat Kelleher - *Genworth Financial, Inc - EVP, President & CEO of Retirement & Protection*

This is Pat. We have profitability coming off the in-force. We have new business, which for some product lines produces some amount of strain. For other product lines there is really not much. Like for example fixed annuities does not produce much strain.

What we are doing is we're using reinsurance in such a way that we are building future earnings capacity and using the block transactions to increase the current unassigned surplus positions to target levels. So that not only can we come back to regular ordinary dividends in 2013, but that going forward in '14, '15, '16, that the business that we put on the books is sufficient to sustain that level of ordinary dividend capacity.

So it is a bit of financial engineering, and we believe that we are striking the right balance for the objectives we have in mind.

Jon Heller - *Canyon - Analyst*

Okay. In terms on the IPO, when you announced Canada, I think you were able to IPO it two months later. In terms of Australia, why are you announcing it with so much lead time into second quarter, where you put yourself into a position -- if the markets move you may not be able to actually achieve what you stated. Why such a -- so much lead-time here?

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

It's Mike. You're right, we do have IPO experience in multiple markets. I would note that the process in Australia is a bit more complex, which does influence timelines.

There are some specific factors here. Consulting with advisers, the desire to include year-end financials was identified; and those become available later in January. There are some calendar considerations as well. You have a market that will soon be moving into the summer and holiday season.

Also it is not typical for IPOs to be marketed during the reporting seasons, which are February and August. So you would see most IPOs in Australia timed such that they are completed in either Q2 or Q4.

But let me be real clear. We are very focused on this transaction and we are trying to move as expeditiously as possible. If there are ways to prudently do it faster, certainly that is what our focus would be.

Jon Heller - *Canyon - Analyst*

Okay. Lastly, with the trends in U.S. MI and how they haven't necessarily improved in some of the new delinquencies and the redefaults, do you feel differently about -- if you could have done it again would you have maybe not contributed the Canadian stock? Especially with this new extraordinary dividend that could have come up to the HoldCo that is coming out of Canada.

You probably would have had more resources at the HoldCo to support the debt and maybe do some share buybacks a little earlier. Does that -- how do you think about that?

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

Listen, we can all have different views. We have to balance and look at a lot of factors. We have to look at a lot of time frames as well.

I am comfortable with the decision we made. But I also was clear on last quarter's call and hopefully have provided some more color on this quarter's call about what tests are and where our priorities are for capital redeployment.

Jon Heller - *Canyon - Analyst*

Okay, thank you.

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

And, Jon, one thing I just want to go back and update. There was a discussion about what are they timing of some of the waivers, and specifically the North Carolina waivers through January 31 of 2013. So I just wanted to make sure that that came across clearly for everybody else.

Operator

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