The Sydney Morning Herald

Genworth shares crash as Westpac pulls deal

By Clancy Yeates

Updated 19 February 2015 — 9:14am, first published 18 February 2015 — 5:59pm

Investors have wiped off more than a fifth of the market value of Genworth Mortgage Insurance Australia after one of its biggest customers, Westpac, sent shockwaves through the industry by taking its business overseas.

Fresh questions have also been raised about QBE Group's plan to float its lenders' mortgage insurance arm this year, as Westpac has also terminated its agreement to place mortgage insurance with QBE.

Genworth Australia chief executive and managing director Ellie Comerford. PETER RAE

Shares in Genworth, which floated in May last year, tumbled 23 per cent to $3.32 on Wednesday, as the now-scrapped deal with Westpac made up 14 per cent of its gross written premium written in 2014. The stock was also trading ex-dividend ahead of paying a fully franked dividends totalling 24.6¢ a share.

Although Genworth shares are still trading well above its float price of $2.65, Westpac's decision underlines the risk of its highly concentrated customer base in the banking industry.

CBA equities analyst Ross Curran said losing Westpac's business was a "game changer" for Genworth, and the move was likely to put pressure on margins.

"We are firm believers in the ability of GMA's management team to deal appropriately with changing conditions, but the market dynamics appear to be permanently altering for the worse following today's announcement," Mr Curran said.

Simon Bonouvrie, a senior portfolio manager at Cadence Capital, said the episode underlined the risks of banks shifting their LMI business elsewhere, but he argued the stock now represented good value of 0.9 times its book value.

"The big unknown is could someone else do this, and the answer is maybe," he said. "At this price it's an interesting prospect, and it actually factors in the risk of someone else leaving."

One industry source said the prospect of other banks terminating their contracts could also make it harder for QBE to proceed with plans to float its LMI business in the first half of this year.

"It has to put pressure also on QBE's listing for its LMI division," he said.

However, it is understood QBE has not changed its float plans at this stage. CLSA analyst Jan van der Schalk also said it was unlikely other banks would follow Westpac in "the forseeable future".

Genworth is the country's biggest provider of lenders' mortgage insurance, which plays an important role in the financial system by protecting banks from losses from soured home loans

Andrew Papageorgiou, of fund manager Realm Investment House, said that if the Westpac decision signals a trend, this could have system-wide implications as it threatens the business model that requires scale to remain profitable. The LMIs are effectively on the frontline because the banks can claim losses from the LMIs.

"If there isn't enough cream for domestic LMI providers to be strong, growing and profitable businesses, it could call in to question whether they have the wherewithal to provide systemic insurance for a tail-event"

From May, all new home loans Westpac writes with loan-to-valuation ratios above 90 per cent will be insured by Bermuda-based Arch Capital Group. Westpac's insurance arm will continue to provide LMI on loans with an LVR of 80 to 90 per cent.

A Westpac spokeswoman said the move would not affect existing LMI policies and it anticipated a reduction in LMI premiums. "Westpac is not increasing its risk appetite," she said.

with Ruth Liew and Jonathan Shapiro