

Tower HY results script

26 May, 2021

Slide 3 – Chairman’s update

Michael Stiasny

Mōrena, good morning and thank you for making the time to join us for this investor call and presentation of our half year results.

With me in Auckland is our Chief Executive Officer, Blair Turnbull and our Chief Financial Officer, Jeff Wright who will take you through the results and answer your questions.

Business performance

When presenting our full year 2020 results in November, I noted that no company is immune to the ongoing challenges posed by the Covid pandemic.

Our digital-first strategy has positioned Tower well and is continuing to deliver solid GWP growth and reduced management expenses. However, these positive results have been offset by an increase in large event and large house claims, and general claims increases due to rising building costs. There is no question that the insurance industry – like all of New Zealand – is facing inflationary pressures emerging as a result of supply chain and other pandemic-induced challenges.

Tower has taken decisive action to address these factors which have impacted profits in this half. Blair will take you through those comprehensive measures shortly. Our strength in digital and data is assisting us to respond quickly and we anticipate seeing some improvement in the second half – acknowledging that it takes time for the mitigations to have full effect.

Accordingly, last week we revised our guidance on underlying profit for the 2021 financial year to between \$25 and \$27 million.

Capital position and dividend

Despite these unprecedented times, Tower remains a resilient, strong and well capitalised business with a solid base for continued investment in growth. The business is increasingly nimble, and we have acted swiftly when solid growth opportunities have been identified including the purchase of the ANZ legacy portfolio and Club Marine.

Following settlement of the EQC receivable, Tower now has a solvency ratio of 309%, \$97million above regulatory minimums and the Reserve Bank has lowered Tower's solvency condition from \$50 million to \$25 million.

The business is in good heart and I am pleased to announce on behalf of the Board, a resumption in dividend payments.

Based on Tower's ordinary dividend policy of paying 60-80% of cash earnings where it is prudent to do so, a dividend of 2.5 cents per share will be paid on 14 July.

This is a watershed moment and I'd like to acknowledge you, our shareholders, who have supported Tower through five tough years. It is good to be able to reward your patience.

Positioned for long term growth

Tower has successfully shed its legacy issues and has entered a new, accelerated phase of innovation and growth. Blair has an exciting strategy – that he will share with you – and is wasting no time in implementing it. Innovation is at the heart of Tower in 2021, a far cry from where we sat a decade ago.

I'd like to acknowledge the Tower team. Sustained premium growth and a downward trend in management expenses is testament to a solid strategy and the discipline and dedication of the people that implement it.

In short, despite the COVID-induced breeze, Tower continues to be well positioned for sustainable, long term growth.

I'll now hand over to Blair and Jeff, who will take you through the results and outlook before we take questions.

Blair Turnbull

Slide 4 – Solid performance with a strong platform for growth

Kia ora, thank you Michael and good morning everyone.

I am delighted to be here sharing our half year results for 2021 which sees Tower in a very solid capital and solvency position. We have a technology and distribution advantage that sets us apart from our competitors and affords strong long term customer and premium growth prospects.

Slide 5 – Sound performance

Tower has reported a sound result for the half year, although as indicated by our updated guidance last week, we are facing emerging external factors, such as claims inflation, which has impacted profits.

Underlying NPAT excluding large events was \$18 million and reported profit for the half year was \$12 million, down from \$14.9 million in the prior year.

Offering customers a simple and rewarding experience through our leading technology platform has helped grow Tower's Gross Written Premium for the half year to 31 March to \$194 million, up 6% on the same period last year. This

was a strong result, achieved despite the Pacific business declining 16% primarily as a result of economic challenges related to Covid-19.

Disciplined cost control and further efficiencies have seen Tower's overall management expense ratio further improve by 2.5%, to 36.5%.

Customer numbers showed healthy growth, up 2.8% to 306,000 and market share has now climbed from 8.6% to 9.3%.

Tower's combined operating ratio has increased 4.9% over the prior year to reach 90.3% reflecting inflationary pressure on claims and higher large events.

Our New Zealand parent solvency ratio is 309%, which is \$97 million above regulatory requirements and reflects our strong capital position.

Slide 6 – A journey

Tower's journey of focus and streamlining our business has entered an exciting new phase.

Following the process of transformation and re-platforming, we have made positive progress in resolving legacy issues. In the past six months we reached a \$42.1 million settlement with EQC; the reserve bank reduced our licencing condition from \$50 million to \$25 million; and we simplified our structure. This has made Tower a far more robust and transparent business, one that is very well placed to enter our exciting new phase of growth and innovation while also strengthening our pricing, claims and underwriting insurance fundamentals.

The key to our success is leveraging our new cloud-based, scalable digital and data platform for our three businesses: our flagship Tower Direct business; our unique Partnership business which includes leading retail brands, advisory

businesses and more recently the addition of Insurtechs; and the Pacific business with operations in eight countries.

Strengthening the business remains a priority and this is particularly heightened as we face claims inflation and wider environmental macro pressures. Jeff and I will talk about this in more detail shortly.

We have a technology advantage and a data focus which sets us apart from our competitors and affords strong long-term growth prospects. Our cloud-based, digital platform enables us to scale quickly as we acquire new business and migrate customers to our advanced technology.

As a business we have shed our legacy issues and we are acting decisively to address emerging external pressures. Tower ends this half year in a very solid capital and solvency position with attractive growth prospects and a clear strategy to deliver sustainable shareholder value.

Slide 7 – Customer and premium growth

Over the last six months we have achieved Gross Written Premium of \$194m, up 6% year on year. This brings our total GWP for the past 12 months to \$395m.

Our flagship Tower Direct business has delivered very strong growth of 14% year on year. This has been achieved by focusing on new and existing customers with nearly half of these now holding multiple products. When combined with digital marketing and automated campaigns we have also reduced our cost to acquire new business to 12% of net earned premium.

Our Partnership business has delivered positive 3% growth. But the true value is in the quality of the business where we have transformed our partnership portfolio from a more traditional, higher commission portfolio to a new

generation of partnerships such as corporate, retail and advisory referral partnerships and insurtechs. All of our key partners are now on our cloud-based digital platform at more sustainable commission levels and we have a strong partner pipeline.

Our Pacific business GWP declined by 16% primarily as a result of economic challenges related to Covid-19, however we remain committed to the Pacific. We have launched our digital platform in Fiji and we have a robust plan to progressively roll it out to other countries over the coming 18 months, while also simplifying and streamlining our product set to align our Pacific business more closely with our New Zealand businesses.

Slide 8 – Continued improvement in cost efficiencies

Our flagship Tower Direct business continues to lead the way and highlights the customer, financial benefits and efficiency afforded from a leading digital and data technology platform. With a management expense ratio of 31% - a 4% improvement on half year 2020 - this compares favourably with Tower's overall combined expense ratio of 36.5%.

We remain very focused on decommissioning legacy systems and we are targeting a move from six to two systems by the year end.

Commission is also reducing as a result of our ANZ acquisition. The full benefits of this will flow through from the first half of the 2022 financial year.

The Youi portfolio acquisition is now complete and it is pleasing to note that retention rates are in line with our initial expectations.

Slide 9 – Emerging claims inflation

In the latter stages of the first half, we have seen an increase in large events and large house claims as well as rising building costs.

Large events in this half included the large fire at Lake Ōhau village and the severe flooding in Napier in late 2020, resulting in a \$9.3 million impact before tax. This is a significant increase over the \$2.8 million in large events claims in the 2020 half year and should be viewed against historical data which reflects that 2019 and 2020 had an unusually low incidence of large events.

The frequency of large house claims, which are those claims that total more than \$50,000, has doubled to 52 in this half compared with the same period last year.

The average cost of all house claims has risen 8% to \$4,620 per claim reflecting the rising cost of building materials.

As a result of these factors, our claims ratio excluding large events is 4% higher than the prior year, at 48%.

Slide 10 – Decisive action

In insurance, there will always be volatility in claims – it's the nature of our business. What sets Tower apart is our ability to identify emerging trends and quickly address them utilising the digital and data technology we've invested in.

We are working with our supply chain to enhance efficiencies and moderate increases in claims costs.

We also are working with data science and risk partners to better understand the links between large events, climate change and large house fires in order to help mitigate and reduce such events in the future.

Automation and data management are at the forefront of our response through optimising digital claims management to improve quality of claims assessment, repair and settlement.

We also have the ability through our leading technology capability to act swiftly to adjust ratings and underwriting if necessary.

These actions will take time to gain traction, however we expect to begin realising benefits in the second half.

Slide 11 – Core business solid

The fundamentals of Tower's performance are strong: we have three focused and unique businesses – Tower Direct, Partnerships and Pacific.

We are growing ahead of the market thanks to investments in our scalable, efficient digital and data technology platform. And we have steadily reduced management expenses, with clear actions to further improve going forward.

While large events and large house claims have offset premium growth, this is being actively addressed.

Our underlying NPAT before large events was \$18 million and reported profit after tax and large events was \$12 million.

In short, Tower is a solid business and well positioned for long term growth.

Slide 12 – Delivering shareholder return

We are pleased to resume dividend payments after a five year hiatus. The Board has confirmed an interim dividend payment of 2.5 cents per share. The total interim dividend payment is \$10.5 million and will be paid on 14 July 2021.

Subject to the ordinary dividend policy of paying 60-80% of cash earnings where prudent to do so, and based on achieving FY2021 guidance of \$25 - \$27 million, the indicative combined full and half year dividend will be between 5 cents and 5.5 cents per share.

I will now hand over to Jeff Wright who will take you through our financial results in more detail.

Slide 13 – HY21 financial performance title slide

Jeff Wright

Thank you, Blair, and good morning everyone.

Slide 14 – Group financial performance

Looking at the consolidated results, we can see that GWP growth continued to be a positive feature in the first half, up \$10.3 million on the same period last year. This growth was offset by increasing BAU claims expense resulting from a higher volume of large house claims and emerging house claims inflation.

Management expense ratio improved by 2.5%, as the benefits of the EIS platform are realised.

Underlying NPAT before large events was \$18 million, a decrease of 5% on the first half of 2020. Profit was also impacted by lower investment income. Reported profit of \$12 million is a decrease of 19% on half year 2020. This was primarily a result of the \$6.5 million before tax increase in large events.

Slide 15 – Movement in underlying profit

Slide 15 details the key drivers of underlying profit before tax from half year 2020, to half year 2021.

Compared with the 2020 half year underlying profit before tax and large events of \$28 million, net earned premium increased \$8 million in HY21 through the Youi acquisition and growth in Tower Direct and Tower Partnerships.

Management expenses have reduced, but the increase in BAU claims, driven, as we have said, by an increase in frequency of large house claims and emerging house claims inflation, exceeded the growth in net earned premium.

In addition to the lower investment income, large events, as we have previously noted, was \$9.3 million, well above half year 2020.

Slide 16 – Continued focus on improving claims ratio

This slide provides additional detail on the impact of the previously mentioned claims issues on Tower's loss ratio.

The increase in frequency of large house claims added 2.3% to Tower's loss ratio, while emerging inflation on other house claims added 1.1%. While large house claims are historically volatile, Tower is working with data science partners to analyse this latest experience and will review rating and underwriting for house policies.

Supply chain pressures resulting from Covid have contributed to increases in building material costs. This led to the 1.1% increase in other house claims. We continue to monitor the emerging signs of building cost inflation and are working with the supply chain to minimise increases.

With 62% of New Zealand new business written being motor, there was an expected impact of 1.9% on the loss ratio due to change in mix, offset partially by 0.4% lower motor claims expenses.

Lower Pacific claims expenses reduced the overall loss ratio by 1.4%.

Finally, the higher large event experience added 5.6% to the first half 2020 loss ratio, bringing the first half 2021 loss ratio to 53.8%.

Slide 17 – Continued discipline on management expenses

Tower's management expenses reduced \$1.5 million on the prior year to \$61 million in half year 2021. Our management expense ratio has improved by 2.5% over the half year, down to 36.5%.

This improvement in management expenses is largely due to the completion of the EIS project and the scalability of that platform to enable growth without a corresponding increase in expenses.

This is reflected in the reduction of salary expenses by \$4.9million following the completion of the EIS project and the May 2020 reorganisation.

Net commission expenses increased due to the inclusion of reinsurance profit share income in the corresponding period of 2020.

Amortisation expense increased due to the addition of Youi, ANZ and EIS.

Slide 18 – CEQ claims continue to reduce

Along with other insurers, Tower continues to deal with the tail of Canterbury Earthquake claims. We reduced open claims from 59 properties open at 30 September 2020 to 43 as at 31 March 2021. We closed 35 claims during the half and received 16 new overcaps from the EQC and reopened three other claims. This was in line with expectations. While the pace of new over-caps and

reopened claims continues to slow, the remaining claims are the most complex.

Gross outstanding claims are now down to \$26.5 million following a strengthening of \$2.2 million due to tribunal claims settling for more than expected and Tower prudently increasing the allowance for future claims. We have been able to release \$2.5 million in Additional Risk Margin reflecting the continued run-off of Canterbury claims.

Slide 19 – Strong capital and solvency structure

Tower remains in a strong capital position with Actual Solvency Capital of \$180.4million and a solvency ratio of 309%. This is \$97 million above regulatory minimums. The Reserve Bank also lowered our licencing condition from a minimum solvency ratio of \$50 million to \$25 million during the half, reflecting the diminishing risks associated with CEQ.

AM Best has reconfirmed our financial strength rating at A-, excellent.

Slide 20 – Robust reinsurance programme

This slide provides an overview of our reinsurance programme.

The Lake Ōhau fire and Napier flood events resulted in a half year 2021 large event claims increasing \$6.5 million on the prior year to \$9.3 million.

Tower's aggregate cover takes effect from \$14 million of large events.

Any increase in the second half to the first half year figure of \$9.3 million for large events will reduce NPAT by a rate of \$0.72 million for each \$1 million until the aggregate cover applies.

Tower's long term average for large events is \$8 million per annum.

Slide 21 – FY21 guidance

As we announced on Monday 17 May, we have revised our guidance for Tower's underlying NPAT in FY21 to a range of between \$25 and \$27 million. The change from the previous guidance of greater than \$29.8 million recognises increasing house claims cost and lower investment income.

The guidance assumes FY21 large events remain the same as FY20 at \$9.7million. We have maintained this assumption to allow more ready comparison to the previous guidance.

While Tower is undertaking a number of actions to address increasing house claims, it remains a potential risk to this guidance. A 1% increase in loss ratio above Tower's assumptions will result in an approximately a \$1.2 million reduction in underlying NPAT.

Slide 22 – Our plan for long term growth & improvement

Thank you. I will now hand back to Blair who will provide an update on our strategy and outlook.

Blair Turnbull

Thank you Jeff.

Slide 23 – Clear strategy

Today's results demonstrate the resilience of a customer and digitally-led Tower business, even in the face of Covid and inflationary headwinds. We are continuing to grow; to drive down expenses; and to respond quickly to the changing economic environment.

You can be confident that we are very focused on addressing the challenges we've identified, improving profitability and continuing to leverage our technology, customer and partnership advantage for growth.

We have a clear and focused set of five strategic priorities.

We are relentlessly focused on our customers, deepening our relationships with them through rewards, new products and other offerings that make sense and drive value.

Our core strategy is around personal lines and small to medium sized commercial in New Zealand and the Pacific region.

As you have seen today, we are leveraging the full capability of our cloud-based platform by using data and digital to attract more customers and partners to Tower.

We are finding the best people to partner with and to get their help to keep innovating and delivering.

And importantly, we are committed to maintaining a strong capital and solvency structure, demonstrating we are a strong and stable business that delivers value for shareholders.

Slide 24 – MyTower digital platform

In today's challenging world we've all learnt a critical success factor is being able to quickly analyse challenges and opportunities, pivot and adapt.

To this end digital and data are central to Tower. Our flagship business, Tower Direct, operates fully on our new platform. It's paving the way for our other businesses, Partnerships and the Pacific.

MyTower is at the centre of our digital platform. A full online sales and service experience that now has over 100,000 registered users. My Tower allows us to have a richer, deeper relationship with our customers.

Our Tower Direct business is growing strongly with 60% of Tower Direct new business sold online. Around half of Tower Direct's customers have two or more risks with us. They also stay with Tower significantly longer on average, around twice that of a single product holder. Furthermore, the cost to acquire a customer online is around half that of the telephone.

Our telephony strategy is to support customers with more complicated claims and service enquiries – ensuring the right enquiries and tasks are handled through the right medium. However, we want to be available to customers whenever and however they wish to connect with us, whether that's online or via the telephone.

The heart of the MyTower strategy is that customers are more engaged and satisfied, buy more and stay longer.

Slide 25 – Unique partnerships distribution

A key element of our strategic focus has been on securing mutually beneficial partnerships that drive significant growth.

In the half, we celebrated 30,000 insured risks with TradeMe Insurance customers, and we are in the process of renewing our special retail partnership with TradeMe for a further five years.

We are providing insurance for a range of new corporate partners including CSC Buying Group, the New Zealand Defence Force and Auckland Council.

Today we also announced a partnership with a leading Australian insurtech, Open which will see Tower underwrite their new personalised insurance brand, Huddle which is due to market in late 2021.

We are building what we believe is a truly unique, new generation of insurance partnership model, one that relies less on higher commission and more on our technology capability, customer experience and more balanced and complementary referral arrangements with our partners.

Slide 26 – Quality product mix

Core to our strategy is a quality, innovative, balanced product range which enables us to deepen our relationships with customers, improve revenue and increase retention.

Last year we acquired the referral rights for Club Marine, and we will shortly launch an end-to-end online boat experience.

To keep pace with our customers' lifestyles and expectations around environmental concerns we have also innovated our current products to cover electric vehicles, e-bikes and e-scooters.

We are also creating new products in conjunction with partners. We were delighted to recently announce Tower is partnering with Allianz, one of the world's largest insurers, to launch our new pet and travel products in the coming months.

Slide 27 – Supporting our culture & community

Continuing to grow, partner and innovate as a leading digital and data business will only be possible with the support of our fantastic Tower team and the communities we serve.

It's particularly pleasing to see that cultural diversity across our business is strong with well over half of our people identifying as non-European. We continue to put measures in place to not only celebrate diversity, but also track and measure our progress to ensure we are continually developing as a business.

Our ongoing digitisation has enabled us to increase the flexibility and agility of our workforce and 10% of our people now permanently work from home.

For those of us in Auckland, we will soon move to a new six-green-star rated building from August 2021. The new space will promote more agile ways of working, collaboration, creativity and a relentless focus on our customers.

We have made positive progress on measuring our New Zealand carbon footprint and will measure our Pacific footprint over the coming months.

We will also develop and report on a carbon action plan with a view to reducing our carbon footprint and developing transparent climate reporting.

As we have previously noted, our work with data science partners will help to better understand risks and also increase transparency around the effects of climate change. We look forward to sharing this information in the future.

Slide 28 – Investing for long term growth

Tower is continuing to invest in initiatives that will bring attractive long term growth and a stronger fundamentals to deliver shareholder value. Year to date we have committed investments totalling \$22 million and we will continue to

seek opportunities to invest in the business and look for further sensible and prudent investment opportunities.

Slide 29 – Summary

Tower is a well-capitalised business with a strong balance sheet and solvency margins. We have delivered a sound result with above market premium growth, we have further improved our management expenses and we are delighted to have resumed dividends in this half.

However, Tower is far from the finished product and we know there is work to be done.

Looking forward, our focus is on:

- Driving shareholder value by accelerating growth and innovation through a relentless focus on customers
- Taking decisive action to address emerging challenges with claims inflation, and;
- Continuing to invest in our digital and data platform to drive efficiency and support growth.

We will be holding an analyst day in early September 2021 and we look forward to talking to you in more detail about our strategy to accelerate momentum.

Thank you for your time this morning, I will now hand back to the operator to ask for questions.