# Tower

# 2022 Full Year Results

1 October, 2021 to 30 September, 2022

23 November, 2022

# Agenda

## Chairman’s update
Michael Stiassny, Chairman

## Business update
Blair Turnbull, Chief Executive Officer

## FY22 financial performance
Paul Johnston, Chief Financial Officer

## Looking forward
Blair Turnbull, Chief Executive Officer

# Chairman's update

Positive growth and strong underlying business performance, delivering dividends

**STRONG & WELL CAPITALISED**

- 6.5¢ FY22 dividend
- $30.6m capital returned to shareholders
- AM Best reaffirmed A- financial strength rating
- RBNZ licence condition reduced from $25m to $15m
- Value accretive acquisitions

**RESILIENT TO CHALLENGES**

- Managing inflationary pressures
- Proactively managing climate change risks
- Successful placement of FY23 reinsurance programme

**CONTINUED LONG-TERM GROWTH**

- Strong performance on core business platform
- Flagship Tower Direct digital business growing
- Leveraging unique partnership distribution capability
- Digitising Pacific business improving efficiency & growth

# Business update

Blair Turnbull
Chief Executive Officer

# Our performance

## Solid growth and increased efficiencies underpin strong underlying business performance

### GWP growth
(Gross written premium)

**13% | $457m**
**vs $404m in FY21**

### Customer growth

**319,000**
**vs 304,000 in FY21**

### BAU claims ratio

**48.9%**
**vs 50.2% in FY21**

### MER
(Management expense ratio)

**36.0%**
**vs 37.0% in FY21**

### Large events
Net of reinsurance and recoveries

**$19m**
**vs $13.9m in FY21**

### COR
(Combined operating ratio)

**90.1%**
**vs 91.4% in FY21**

### Underlying profit

**$27.3m**
**vs $20.8m in FY21**

### Reported profit

**$18.9m**
**vs $19.3m in FY21**

# Strong core business performance

UNDERLYING NPAT
excl. large events

**$41m**

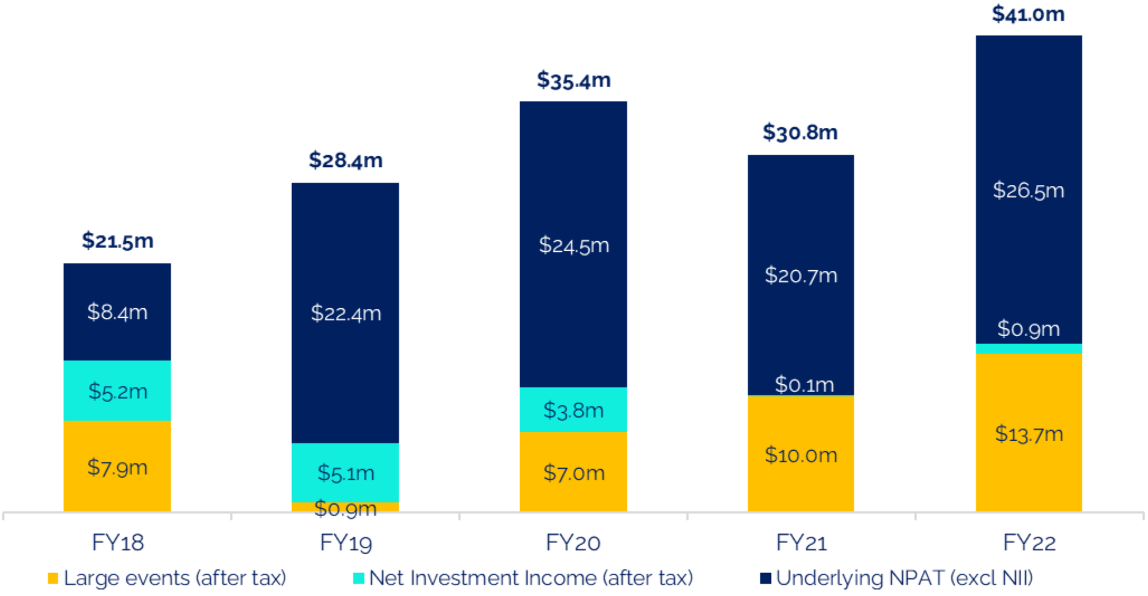
vs $30.8m FY21

UNDERLYING NPAT
incl. large events

**$27.3m**

vs $20.8m FY21

UNDERLYING NPAT EXCL. LARGE EVENTS




- Double digit growth
- Effective management of inflation & claims costs
- Platform delivering scale & efficiencies, reducing MER
- Investment income substantially below historical average
- Reported profit of $18.9m impacted by Canterbury earthquake (CEQ) valuation and customer remediation

# Strong growth in customers and premium

GWP GROWTH

**13%**

to $457m in FY22

CUSTOMER GROWTH

**319,000**

up 5% on FY21

COST TO ACQUIRE [1]

**12%**

Down from 12.6% in FY21

MULTIPLE PRODUCT HOLDING

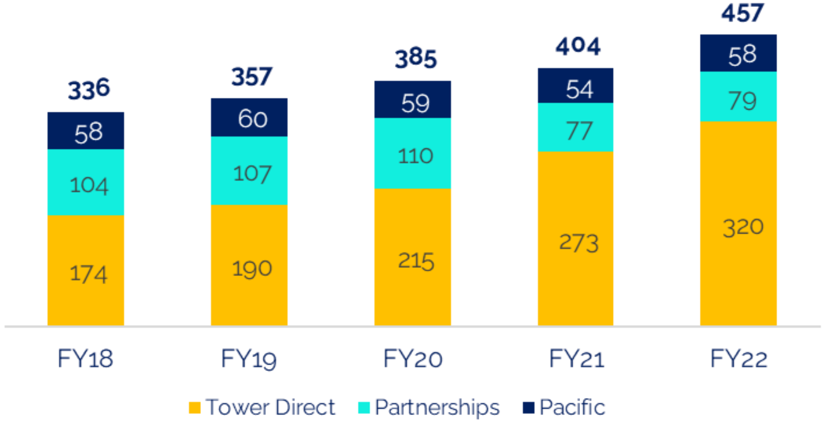
**50%**

of NZ customers have two or more policies (50% in FY21)

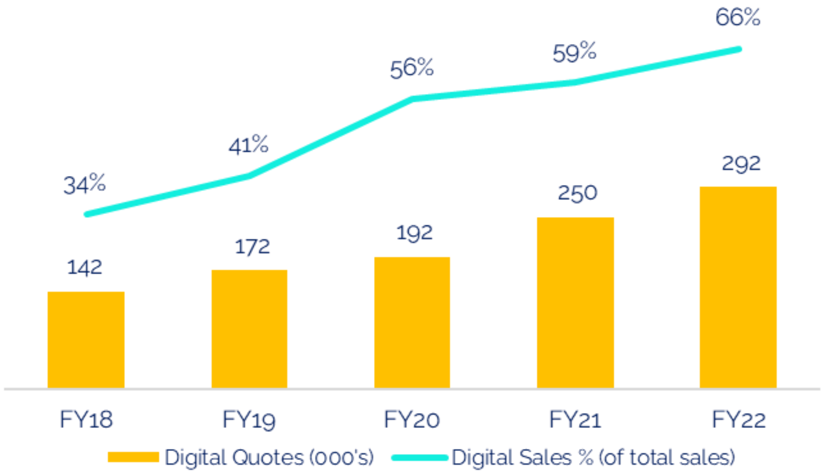
INSURER OF THE YEAR CANSTAR 2022 CAR INSURANCE

OUTSTANDING VALUE CANSTAR 2022 CAR INSURANCE

GWP BY BUSINESS UNIT ($m)




TOWER DIRECT
DIGITAL QUOTES & SALES



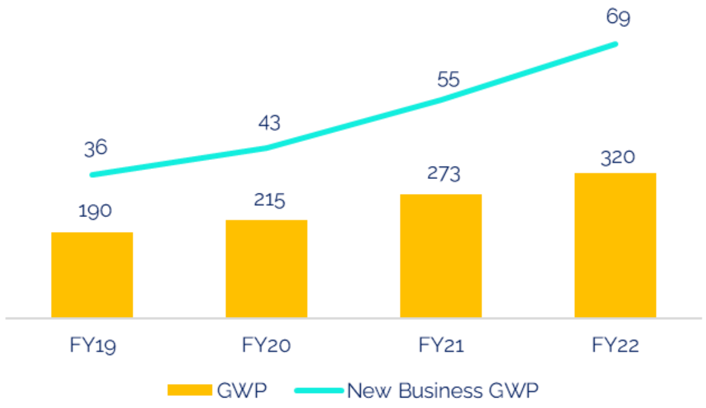

Note 1: Cost to acquire is calculated as deferred acquisition cost amortisation divided by net earned premium

# Growth and improvements across all three businesses

## TOWER DIRECT

- 17% growth to $320m
- 200k My Tower registrations, up 51%
- Over 500k logins in FY22, up 56%
- 85% legacy book policy retention
- Online purchase journey NPS 61%, up from 57% Sep 21

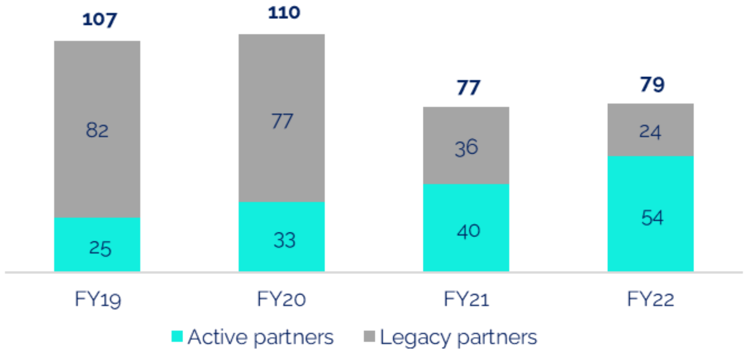
**Tower Direct GWP ($m)**




## PARTNERSHIPS

- 38% Trade Me growth to $25m GWP
- Advisor network grew 35% to 1,500
- New partners; Ray White, KAN
- Commission reduced from 2.9% to 2.2% of GEP

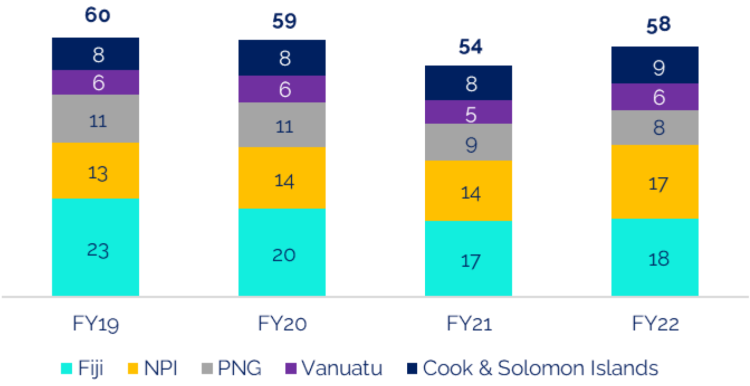
**Partnerships GWP ($m)** [1]




## PACIFIC

- Pacific migrated to Tower platform
- Industry-first online payments
- My Tower in Fiji and Vanuatu
- GWP up 8%, return to growth
- Simplification - NPI acquisition & PNG sale

**Pacific GWP ($m)**




Note: 1: Legacy partnership portfolios have been transferred from the Partnerships business unit to Tower Direct after purchase, comprising ANZ in FY21, and TSB and Westpac in FY22

# Enhanced underwriting accuracy, and expanded product range

RISK BASED PRICING

**145k**

NZ house customers transitioned to flood risk pricing

AUTOMATED HOUSE SUM INSURED

**97%**

of NZ customers updated via CPI or Cordell vs 77% in FY21

AGILE RATING CAPABILITY, MITIGATING INFLATION IMPACTS

**140+**

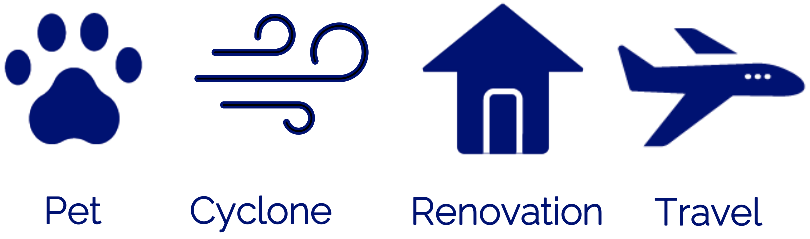
Pricing adjustments in FY22

STRAIGHT THROUGH UNDERWRITING

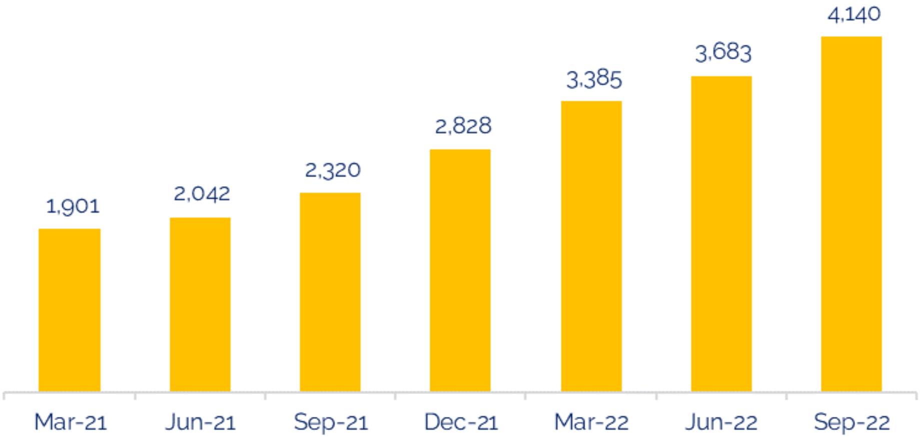
**95%**

NZ risks sold without assisted underwriting vs 92% in FY21

## NEW PRODUCTS LAUNCHED




## EVs UNDERWRITTEN



# Improving claims ratio while managing inflation and weather events

BAU CLAIMS RATIO

**48.9%**

vs 50.2% in FY21

NZ WEATHER EVENTS (incl large and other events)

**$18m**

vs five-year average of $11m

SUPPLY CHAIN OPTIMISATION

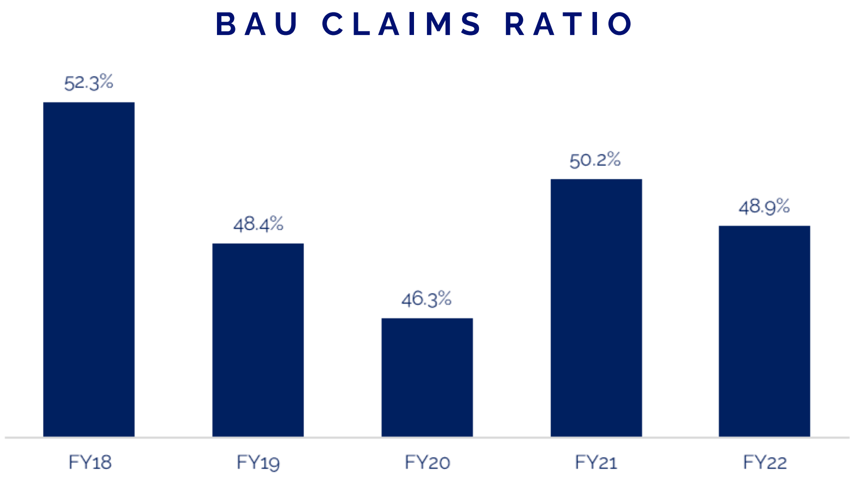
**77%**

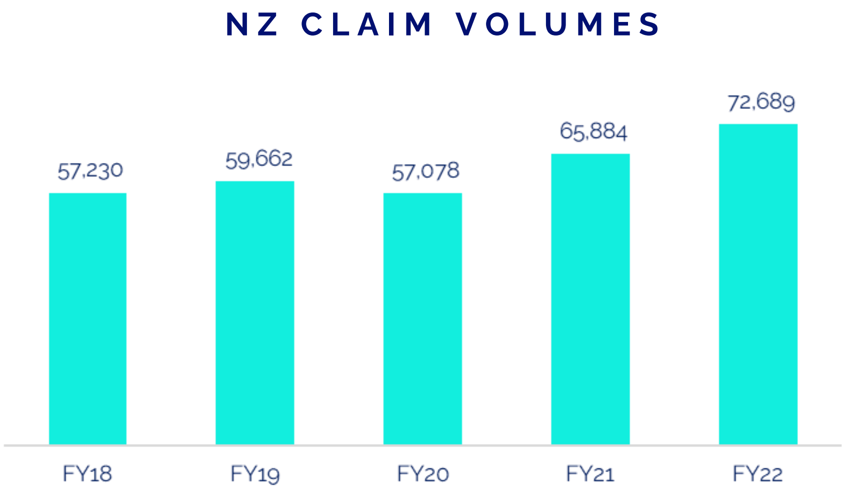
of NZ motor repairs by preferred suppliers vs 75% in FY21

DIGITAL IMPROVING CLAIMS EFFICIENCY

**48%**

Claims lodged online vs 31% in FY21



# Improving MER through simplification & platform efficiency

**MER**

**36%**

vs 37% in FY21

**NZ SERVICE TASKS COMPLETED DIGITALLY [1]**

**50%**

vs 46% in FY21

**$26m LEGACY BACKBOOK ACQUISITIONS COMPLETE**

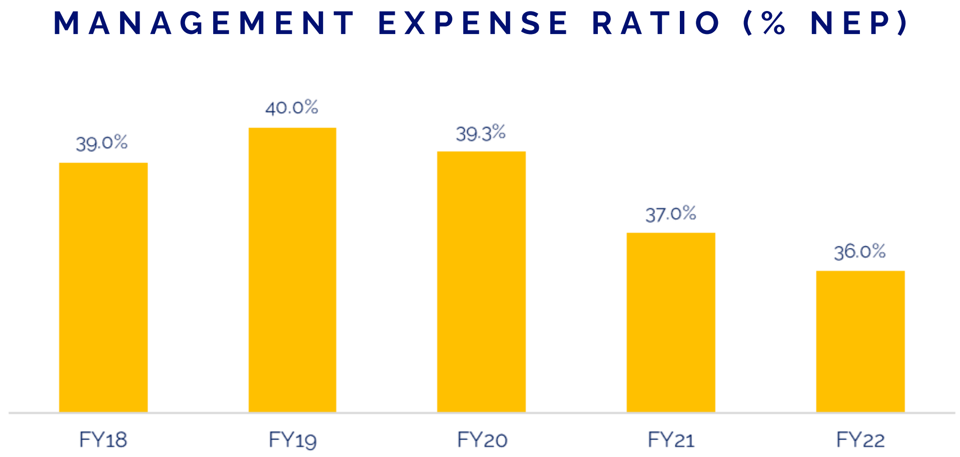
**$11m**

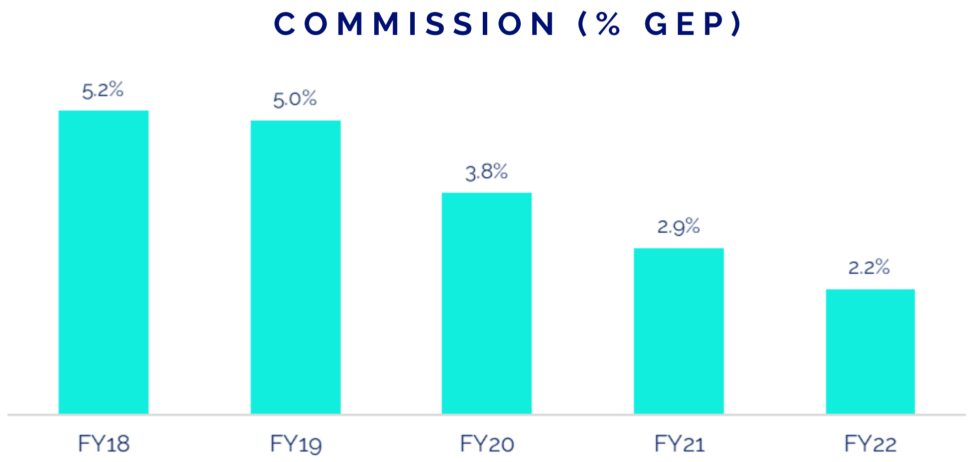
Commissions saved [2]

**LEGACY SYSTEMS REMAINING**

**2**

Down from 4 in FY21




Note 1: Digital service tasks are 50% for the full year FY22 vs 46% for full year FY21. Previously this metric has been reported on as a six monthly figure
Note 2: Commission of $11m saved is the annualised amount of commission paid prior to purchase of all legacy books



TOWER

# Financial performance

Paul Johnston
Chief Financial Officer

# Group underlying financial performance

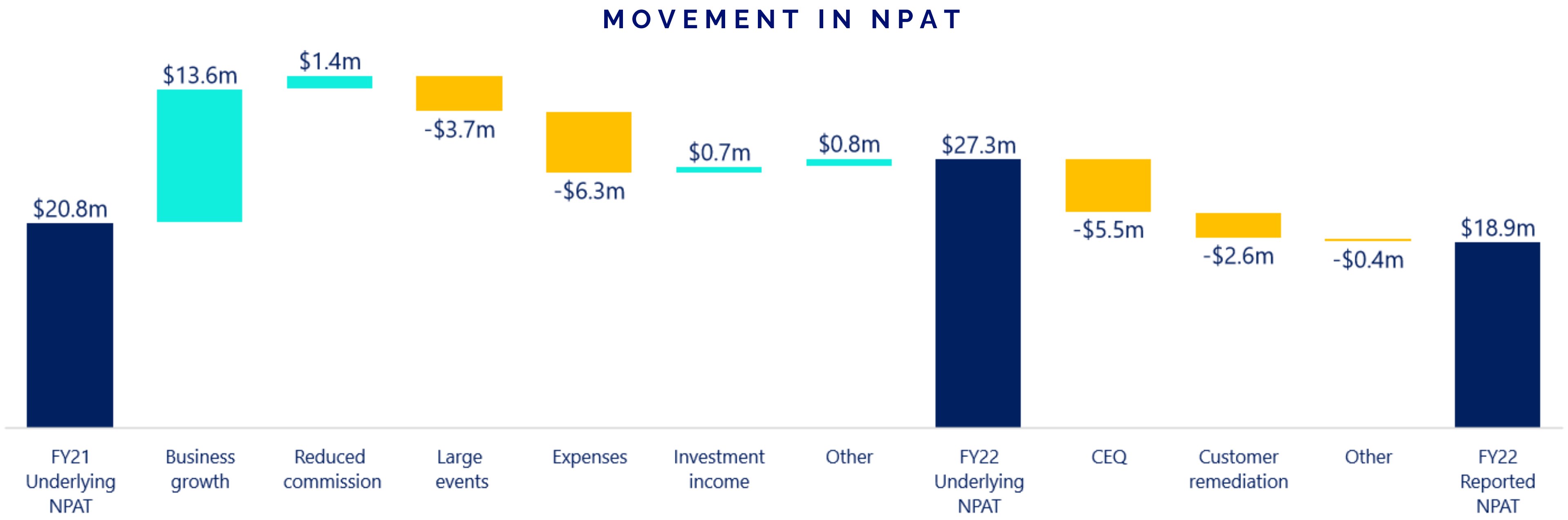
- Strong GWP growth of 13% to $457.3m
- Management expense ratio improved 1%, reflecting scale platform efficiencies
- Lower commission expense through legacy portfolio acquisitions
- Underlying NPAT of $27.3m, an increase of 31% on FY21
- Reported profit impacted by CEQ valuation increase of $5.5m after tax and provision for customer remediation of $2.6m after tax

| Key ratios (% of NEP) | FY22 | FY21 | Change |
|---|---|---|---|
| Claims ratio excluding large events | 48.9% | 50.2% | (1.3)% |
| Large events claims ratio | 5.3% | 4.2% | 1.1% |
| Expense ratio | 36.0% | 37.0% | (1.0)% |
| Combined ratio | **90.1%** | **91.4%** | **(1.3)%** |

| $ million | FY22 | FY21 | Change |
|---|---|---|---|
| Gross written premium | 457.3 | 404.1 | 53.2 |
| Unearned premium | (26.6) | (9.2) | (17.5) |
| Gross earned premium (GEP) | 430.7 | 394.9 | 35.8 |
| Reinsurance | (69.5) | (62.2) | (7.3) |
| **Net earned premium (NEP)** | **361.1** | **332.7** | **28.5** |
| BAU claims expense [1] | (176.5) | (166.8) | (9.6) |
| Large event claims expense [2] | (19.0) | (13.9) | (5.1) |
| Management expenses | (120.6) | (112.0) | (8.7) |
| Net commission expense | (9.3) | (11.3) | 2.0 |
| **Underwriting profit** | **35.7** | **28.7** | **7.0** |
| Net investment income | 1.2 | 0.2 | 1.0 |
| Other income | 1.3 | 1.4 | (0.0) |
| Tax | (10.9) | (9.5) | (1.5) |
| **Underlying net profit after tax (NPAT)** | **27.3** | **20.8** | **6.5** |
| One-off transactions (net of tax) [3] | (8.5) | (1.5) | (7.0) |
| **Reported profit after tax** | **18.9** | **19.3** | **(0.5)** |

Note 1: BAU claims defined as business as usual claims expenses that are not a large event
Note 2: Large event defined as a single event impacting more than 1 risk with an ultimate estimate of $2m or greater (FY21 $1m or greater)
Note 3: Refer to reconciliation between Underlying NPAT and Reported profit on page 28

# Business growth drives strong underlying NPAT




- Underlying NPAT of $27.3m is $6.5m above FY21, reported NPAT $0.4m below FY21
- Business growth underpinned by 13% GWP growth
- Reduction in commission of $1.4m after tax reflects legacy books purchase, partially offset by lower reinsurance commission
- Increase in large events of $5.1m ($3.7m after tax)
- Increase in expenses includes legacy back book purchase amortisation and increase in staffing levels
- CEQ valuation increase as a result of inflation, new overcaps and complexity of existing claims
- Provision for customer remediation includes expected payment to customers including compensation, as a result of multi policy discounts not correctly applied



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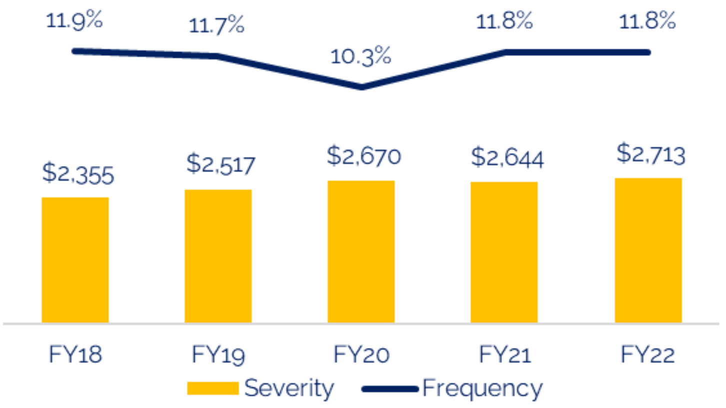
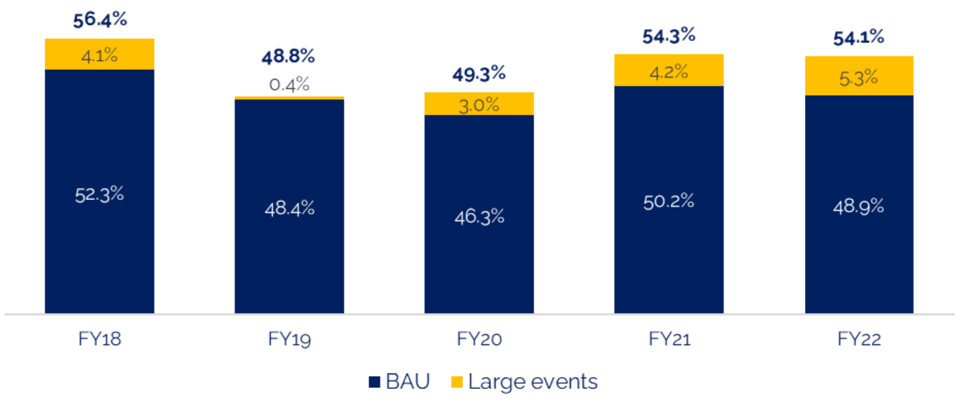
# Steady BAU claims ratio in a challenging environment

- Improving BAU loss ratio despite high inflation period and increasing weather events
- Leveraging targeted rating changes and supply chain optimisation to manage economic challenges
- Covid reduced the frequency of motor claims in H1 FY22, however there have been supply chain pressures for all products with associated cost increases
- New unjustified claims tool live in FY22

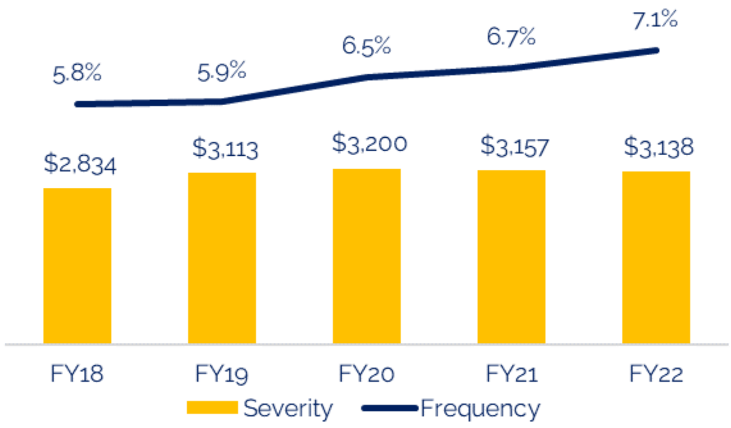
## NZ MOTOR SEVERITY[1] & FREQUENCY[2]




## TOTAL CLAIMS RATIO




## NZ HOUSE SEVERITY & FREQUENCY




Note 1: Severity is defined as the cost of claims (excluding large events, large house, windscreen) divided by the count of claims. In prior years this definition excluded negative or zero incurred claim volumes and was based only on closed claims. The updated definition is deemed more affective in understanding claims and aligns to the actuarial valuation of outstanding claims
Note 2: Frequency is defined as the number of claims (same exclusions as above) divided by risks in force



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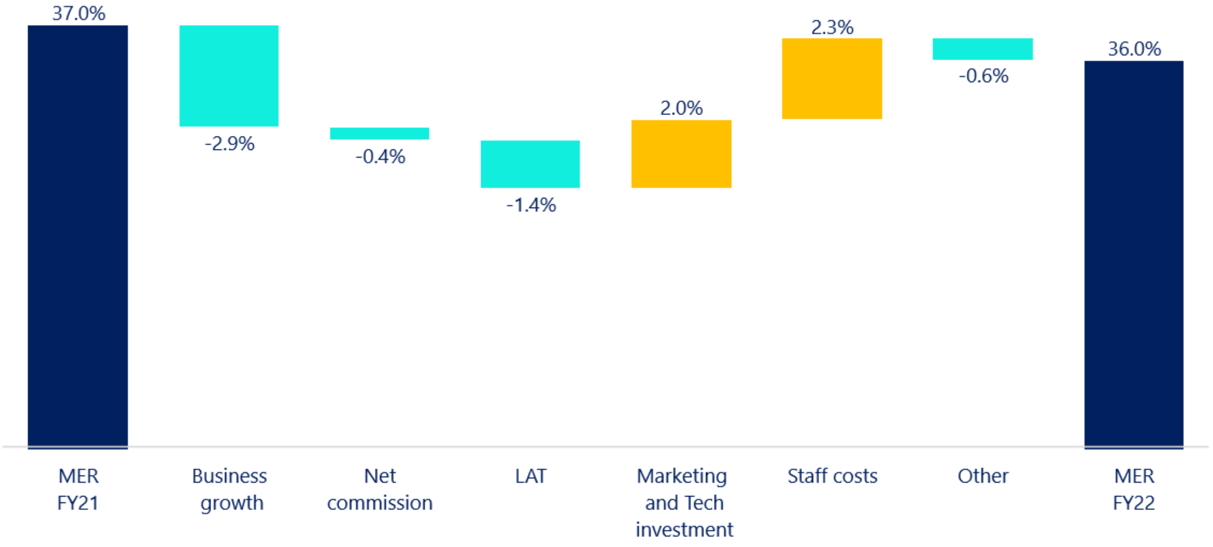
# Continued improvement in management expense ratio

- Management expense ratio[1] (MER) reduced 1% to 36%
- GWP growth contributes a 2.9% reduction in MER
- Net commission expenses decreased due to the purchase of legacy back books
- Unwind of prior year's Liability Adequacy Test (LAT) deficiency
- Investing in people, technology and marketing as well as increasing compliance and regulatory capability
- Other includes an increase in deferral of acquisition costs due to higher acquisition spend

MOVEMENT IN MANAGEMENT EXPENSE RATIO




Note 1: Management expense ratio is defined as Management Expenses (including net acquisition expenses, commission, claims lodgement, and other overhead costs) divided by net earned premium



TOWER

# Investment strategy limits impact of market volatility

- Net investment income was $1.2m vs $0.2m in FY21
- Increasing interest rates resulted in subdued investment income as the portfolio was revalued to market values
- Maintaining conservative investment strategy, with a focus on liquidity and high credit quality, and a target duration for the core investment portfolio of six months
- Our strategy has minimised profit impact from macroeconomic factors and market movements, and we are now set to benefit from higher interest rates

CORE INVESTMENT PORTFOLIO[1] RUNNING YIELD


Note 1: Core investment portfolio refers to Tower's fixed income investment portfolio in NZ. It excludes cash held for operational purposes in NZ, and cash and short-term deposits held in Tower's Pacific subsidiaries.



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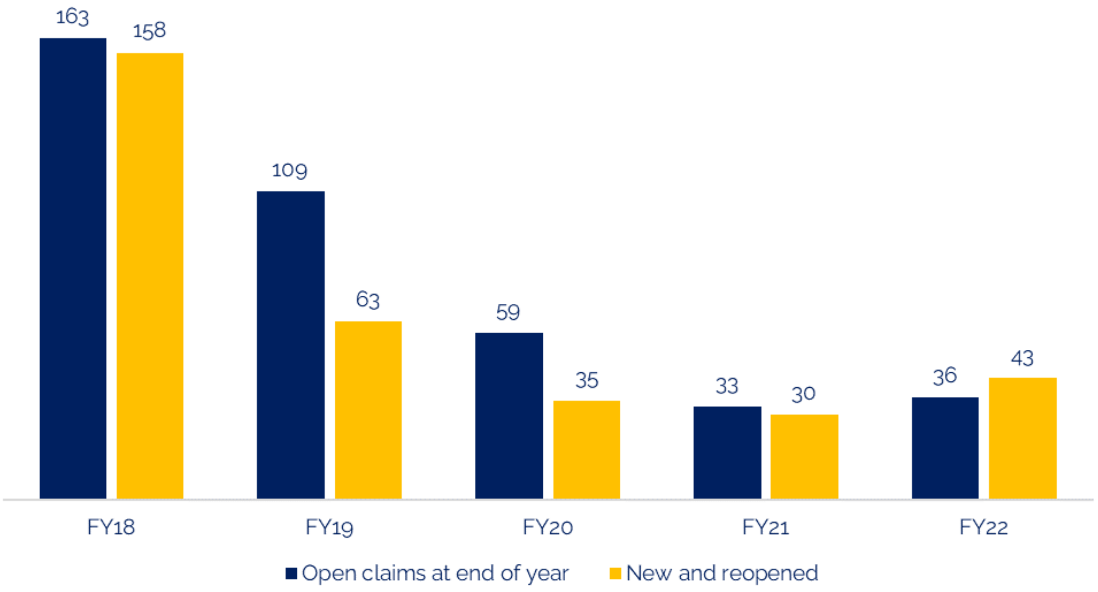
# Increasing reserves to support Canterbury earthquake claims

- FY22 has seen an adverse CEQ charge of $7.5m ($5.5m after tax) in non-underlying items
  - $5.4m new overcaps (including allowance for future new overcaps)
  - $4.3m increase in existing open claims
  - $2.2m reduction for partial reinsurance cover relating to these increases
- The EQC fixed cap level is not inflation indexed, contributing to additional new overcap claims. We are working with EQC to mitigate additional costs
- Existing claims assessed as increasingly complex to resolve, provisions have been increased to address this
- Dedicated CEQ team actively working to finalise claims as efficiently as possible

OPEN & NEW CEQ CLAIMS[1]




Note 1: Refer to pg 29 for reserving table and graph of open/closed claims in the period



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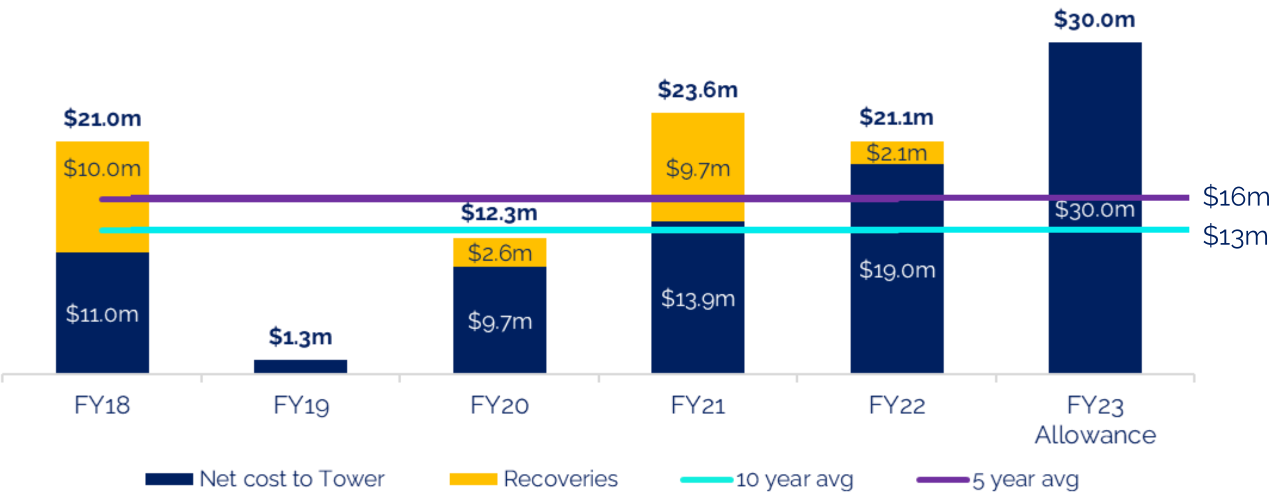
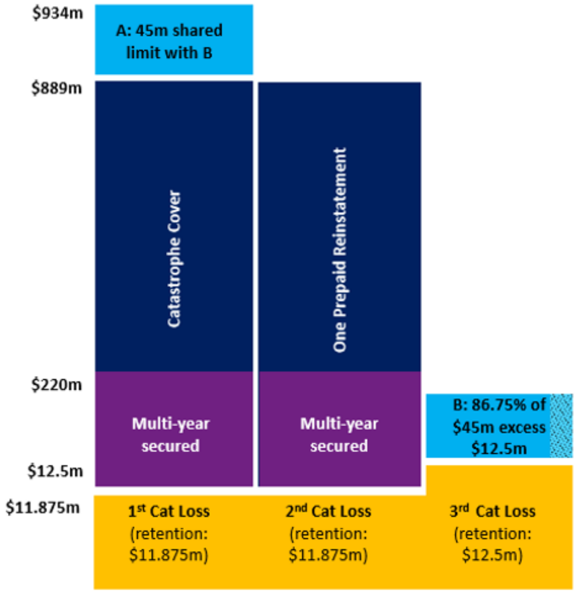
# Robust reinsurance programme provides protection

## HISTORICAL LARGE EVENTS




## REINSURANCE PROGRAMME OVERVIEW




### FY22 large events

- $21.1m large events incurred in FY22; Tonga volcanic eruption ($6.8m), Cyclone Dovi ($3.6m), North Island Rainstorms ($6.4m), and Nelson Floods ($4.3m)
- $19m net cost to Tower from FY22 $20m aggregate cover excess and $1m recovery of prior period event

### FY23 reinsurance cover

- Catastrophe cover: $934m limit with retention of $11.9m
- Aggregate cover removed – provision in FY23 guidance of $30m large events
- Overall reinsurance spend for FY23 is 13.6% of premium income, down from 15.9% for FY22 (14.5% excluding the FY22 aggregate)[1]

Note 1: Overall FY22 gross reinsurance spend as % of premium income (subject to the reinsurance programme) was 14.3% when FY23 programme placed. As a result of FY22 finalisation this increased to 14.5%

# Strong capital & solvency, delivering shareholder returns

CAPITAL RETURN & DIVIDENDS

**$55.3m**

returned to shareholders from FY22

AM BEST FINANCIAL STRENGTH RATING

**A-**

affirmed in April 2022

TOWER PARENT SOLVENCY

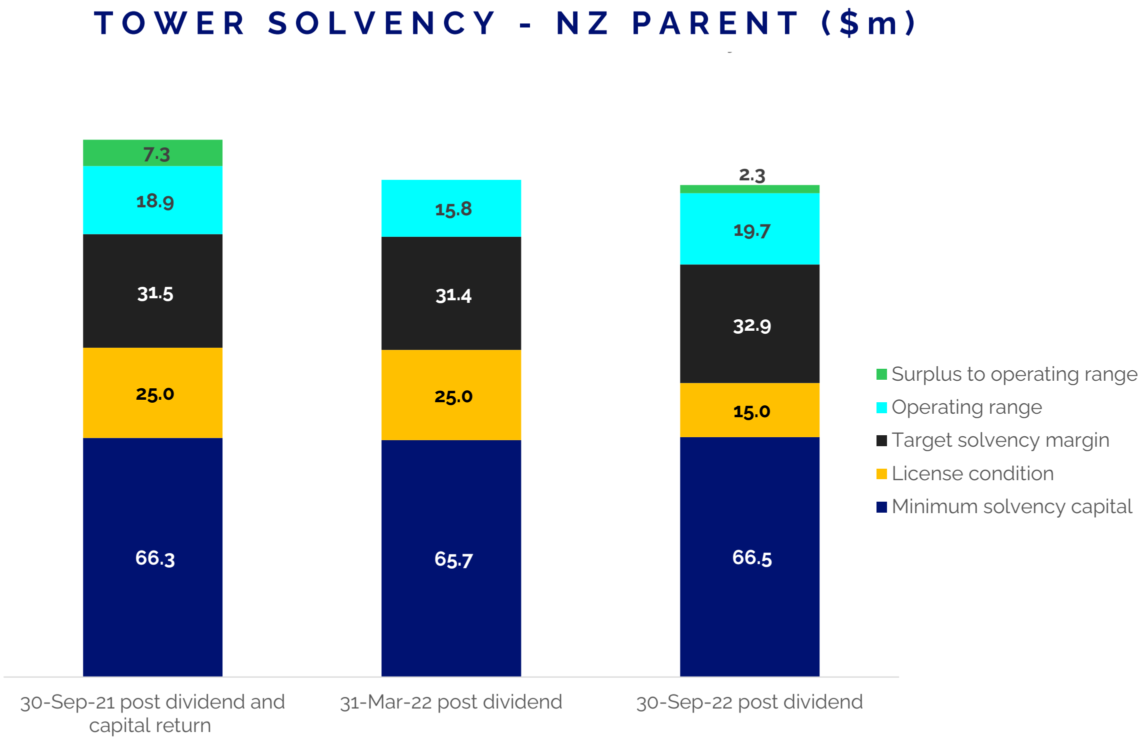
**205%**

after capital return and final dividend

FULL YEAR DIVIDEND[1]

**6.5c**

4c final dividend (FY21 full year 5c)




Note 1: Tower's ordinary dividend policy is to pay a stable annual dividend to shareholders that aims to be in the range between 60-80% of "adjusted earnings" (defined as the reported full year Net Profit After Tax (NPAT) plus acquisition amortisation and unusual items) for the Tower consolidated group, where prudent to do so.

# FY23 guidance

| | FY22 Actual | FY23 Guidance |
|---|---|---|
| **GWP growth** | 13% | 10% - 15%<br>(excluding Tower PNG) |
| **Large events allowance** | $19m<br>(net of reinsurance) | $30m |
| **Underlying NPAT**<br>(including large events) | $27.3m | $27-32m |
| **Dividend**[1] | 6.5 cents per share | 6.5 cents per share |

Note 1: Tower's ordinary dividend policy is to pay a stable annual dividend to shareholders that aims to be in the range between 60-80% of "adjusted earnings" (defined as the reported full year Net Profit After Tax (NPAT) plus acquisition amortisation and unusual items) for the Tower consolidated group, where prudent to do so.

# Looking forward

Blair Turnbull
Chief Executive Officer

# Leveraging scalable platform to continue growth and efficiencies

SERVICE EFFICIENCIES PLANNED FOR FY23

**16%**

reduction in cost to serve (down to $8)

CLAIMS EFFICIENCIES PLANNED FOR FY23

**3%**

Saving in total claims costs

MY TOWER CAPABILITY

**Car replacement journey, ways to save, personal details**

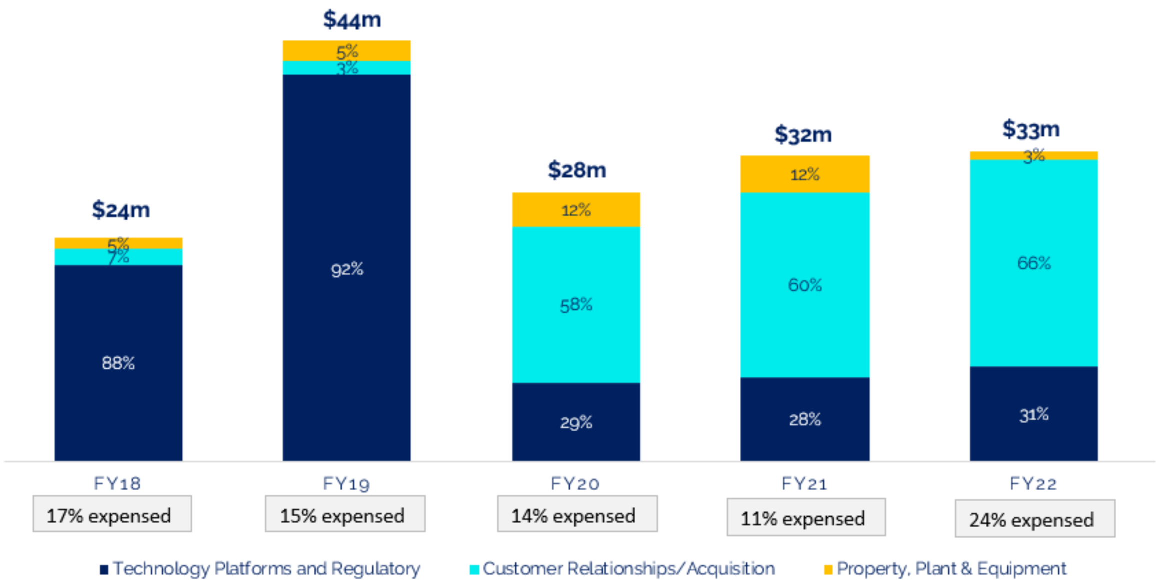
Self-service features to launch in H1 FY23

AUTOMATED MARKETING

**5 million**

Personalised messages planned for FY23

## INITIATIVE INVESTMENT



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# Tackling resourcing gap via digital service and unique footprint

RESOURCING HAS IMPACTED NPS[1]

**20%**

In Sep 22, down from 43% in Sep 21

DIGITAL INVESTMENT

**30%**

Of FY23 investment on customer experience & frontline enhancements

CONTINUALLY IMPROVE STAFF ENGAGEMENT

**7.8**

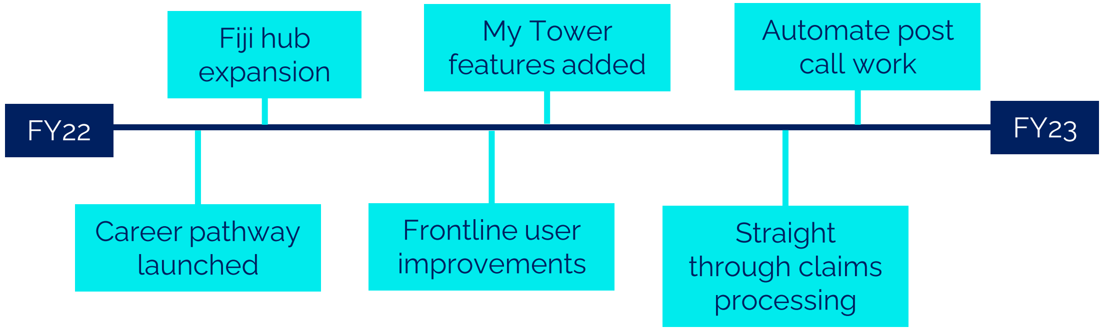
FY22 engagement score up from 7.7 FY21

FIJI HUB INVESTMENT

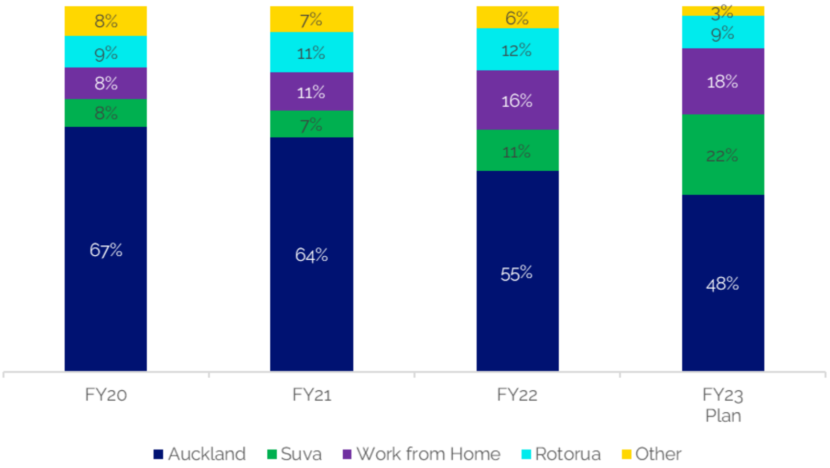
**+100**

Additional planned Tower staff working in Suva office in FY23

**FY23 NPS PATHWAY**




**TOWER STAFF BY LOCATION**




Note 1: NPS = Net Promoter Score



TOWER

# Protecting the future for our customers & communities

PROPERTY RISK RATINGS

**Coastal erosion & inundation**

Planned for FY23

SUPPORTING COMMUNITIES THROUGH CLIMATE CHANGE

**Parametric cyclone cover**

Pilot launched in Fiji

SUSTAINABLE PRODUCT DEVELOPMENT

**$15K sustainability benefit, e-mobility**

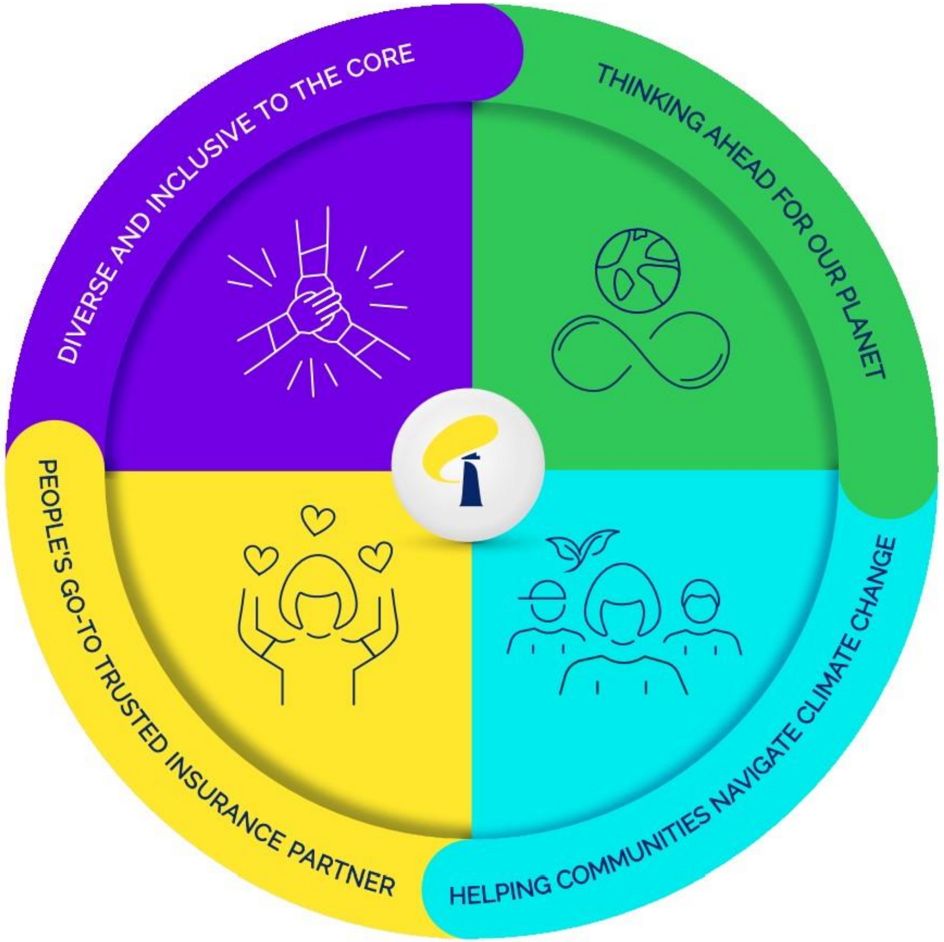
Focus on supply chain and customer education

2025 EMISSIONS REDUCTION TARGET OF

**21%**

FY22 emissions up 12% to 617 tCO2e vs FY20 base year

**OUR ENVIRONMENT, SOCIAL AND GOVERNANCE STRATEGY**



# CONTINUING TO DELIVER DIVIDENDS AND GROWTH

- ✓ Strong underlying operating performance
- ✓ Positive customer outcomes and growth
- ✓ Mitigating inflation headwinds and implementing process enhancements
- ✓ Driving efficiencies through scalable platform and focus on expenses
- ✓ Delivering positive shareholder returns: dividends and accelerating growth

# Questions?

TOWER
Overview
Billing
Contact us
Account details
Log out
Make a claim
Get a quote
Make a claim
37 Komai Street, Hamilton
Policy number: P0019742851
House Plus
Current
Effective from 02 Nov 2021
Renewal
Effective from 02 Nov 2022
Policy details
Period of insurance
Total premium
Sum insured
Excess
Finance providers
Special features
02 Nov 2021 to 02 Nov 2022
$1,241.02 per year
Show premium breakdown
$634,300.00
$400.00
View other policy excess
None
You do not have any special features specified on this policy
02 Nov 2022 to 02 Nov 2023
$1,365.02 per year
Show premium breakdown
$669,300.00
$400.00
View other policy excess
None
You do not have any special features specified on this policy
+ Add New
People
Policy holder(s)
Who lives there
farheen fathima
Relative
farheen fathima
Relative
Billing
Next instalment
$151.70
On 17 Nov 2021
Go to billing
Risk profile
Modelling by RMS
We've identified the following risks for your property
Earthquake
Low
Flood
Medium
View details

# Reconciliation between underlying profit after tax and reported profit after tax

| $ million | FY22 underlying profit | Non-underlying items (1) | Reclasses (2) | Papua New Guinea (3) | FY22 reported profit |
|---|---|---|---|---|---|
| Gross written premium | 457.3 | (3.7) | | (8.1) | 445.6 |
| Gross earned premium | 430.7 | (3.7) | | (8.7) | 418.3 |
| Reinsurance expense | (69.5) | | | 3.2 | (66.3) |
| **Net earned premium** | **361.1** | **(3.7)** | **0.0** | **(5.4)** | **352.1** |
| BAU claims expense | (176.5) | (7.6) | (23.1) | 1.2 | (205.9) |
| Large events | (19.0) | | | | (19.0) |
| Management and sales expenses | (120.6) | (0.2) | 24.0 | 2.6 | (94.2) |
| Net commission expense | (9.3) | | | 0.0 | (9.3) |
| **Underwriting profit** | **35.7** | **(11.4)** | **1.0** | **(1.7)** | **23.6** |
| Net investment income | 1.2 | | | (0.0) | 1.2 |
| Other income | 1.3 | | (1.0) | (0.0) | 0.4 |
| Underlying profit before tax | 38.3 | | | | |
| Income tax expense | (10.9) | 2.9 | | 0.5 | (7.5) |
| Profit after tax from discontinued operation | 0.0 | | | 1.2 | 1.2 |
| **Underlying profit after tax** | **27.3** | | | | |
| Canterbury impact | (5.5) | 5.5 | | | |
| Multipolicy holder discount remediation | (2.6) | 2.6 | | | |
| Other non-underlying costs | (0.4) | 0.4 | | | |
| **Reported profit after tax** | **18.9** | **0.0** | **0.0** | **0.0** | **18.9** |

(1) Non-underlying items include net impact of Canterbury earthquake valuation update, provision for multipolicy discount customer remediation, regulatory and compliance projects (such as the adoption of IFRS-17), and a prior period tax adjustment

(2) Reclassification of claims handling expenses from management expenses to net claims expense and FX gain/loss from other income to management expenses

(3) Tower Insurance (PNG) Ltd was sold after balance date however for statutory reporting the full P&L of this business is reclassified as a discontinued operation for the full 2022 financial year

**Underlying and reported profit:**

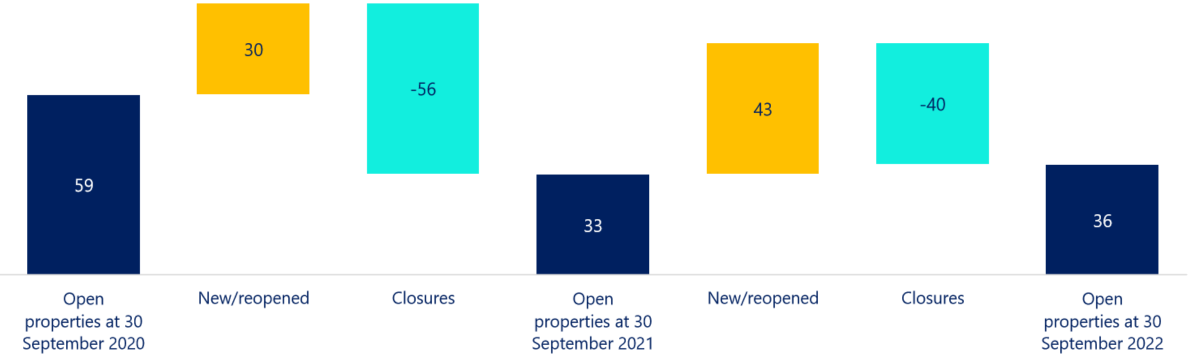
- "Underlying profit" does not have a standardised meaning under Generally Accepted Accounting Practice (GAAP). Consequently it may not be comparable to similar measures presented by other reporting entities and is not subject to audit or independent review
- Tower uses underlying profit as an internal reporting measure as management believes it provides a better measure of Tower's underlying performance than reported profit, as it excludes large or non-recurring items that may obscure trends in Tower's underlying performance, and is useful to investors as it makes it easier to compare Tower's financial performance between periods
- Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods.
- "Reported profit after tax" is calculated and presented in accordance with GAAP and is taken from Tower Limited's financial statements for the full year ended 30 September 2022

# Canterbury earthquake reserving and open claims

## CEQ RESERVING

| $ million | Sep-19 | Mar-20 | Sep-20 | Mar-21 | Sep-21 | Mar-22 | Sep-22 |
|---|---|---|---|---|---|---|---|
| Case estimates | 20.8 | 15.1 | 9.7 | 7.3 | 6.8 | 4.5 | 5.3 |
| IBNR/IBNER[1] | 15.5 | 11.7 | 11.6 | 9.9 | 9.6 | 11.9 | 12.7 |
| Claims handling expense | 2.5 | 1.9 | 1.9 | 1.6 | 1.3 | 1.0 | 0.8 |
| Risk margin | 7.8 | 6.7 | 5.7 | 5.1 | 4.9 | 4.9 | 5.7 |
| Additional risk margin | 5.0 | 5.0 | 5.0 | 2.5 | 0.0 | 0.0 | 0.0 |
| Actuarial provisions | 30.8 | 25.3 | 24.2 | 19.1 | 15.8 | 17.8 | 19.2 |
| **Gross outstanding claims** | **51.6** | **40.4** | **33.9** | **26.4** | **22.6** | **22.3** | **24.5** |

## OPEN CEQ CLAIMS




Note 1: IBNR = Incurred but not reported; IBNER = Incurred but not enough reported.



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