Tower HY24 Results Announcement Investor Presentation Script

Slide 1 – 2024 Half Year Results

Michael Stiassny

Mōrena, good morning and thank you for making the time to join us for this investor call and presentation of our 2024 half year results.

Slide 2 - Agenda

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

Slide 3 – Chairman's update

After the tumultuous weather events of 2023, it is a welcome shift to be delivering good news today. Remaining focused on implementing strategy and solid operational delivery – coupled with benign weather patterns – has resulted in considerably improved business performance.

In addition, enhanced profitability and the comparatively swift resolution of catastrophe event claims has significantly improved Tower's capital position.

Consequently, I am pleased to announce that based on Tower's ordinary dividend policy of paying 60-80% of cash earnings where it is prudent to do so, the Board has declared an interim dividend of 3 cents per share, to be paid on the 27th of June.

[pause]

As you will recall, at the end of FY23 following the significant weather events in February 2023, Tower set a prudent large events allowance of $45m which remains intact.

Should the weather gods continue to look favourably upon us between now and 30 September, any unused portion of that $45m, which is $32m after tax, will directly increase underlying NPAT to improve the full year result.

Our year end underlying NPAT guidance of greater than $35m assumes full use of the $45m allowance, so the potential upside could be significant.

[pause]

The strategic review Tower announced late last year is continuing to progress, with a range of options being considered to maximise shareholder value and optimise our capital structure to support our market competitiveness. No decisions have been made and we will update the market at the appropriate time.

Suffice to say that the Tower executive remains fully focused on strategy and business delivery.

[pause]

While we are all enjoying calmer weather this year, insurers paid out some $4b to New Zealand customers following last year's catastrophic events. This underscores the critical role insurance continues to play in New Zealand's resilience, both economic and societal.

Ensuring insurance remains available and cost-effective will necessarily be our focus going forward. That will require Tower to develop new and innovative offerings that not only identify and manage risk, and support customers and communities through climate change, but are affordable.

As I have said previously, this is a particularly difficult sum to balance and regrettably, Tower and other insurers will not be able to continue to provide insurance for everyone.

[pause]

Tower has led the way in New Zealand with our early adoption of risk-based pricing and underwriting. Our view was – and remains – that risk-based pricing is in the best interests of policy-holders, shareholders and New Zealand Inc.

There is no question that risk-based pricing gives Tower a competitive advantage by enabling more accurate risk selection and pricing, but importantly it also clearly signals to the market where to buy and invest. And these signals are absolutely crucial if New Zealand is to successfully manage and avoid some of the financial risks posed by climate change.

Despite this – what I would call common sense – for the longest time it felt like we were a lone voice and there were plenty of detractors.

Happily, for the future of this country, it appears the tide is turning.

To quote recent comments from the Reserve Bank of New Zealand (RBNZ): "Risk-based pricing can provide a strong signal to encourage the proactive mitigation and lowering of exposure to risks, which can be beneficial for society's overall risk management".

The RBNZ then went further in its most recent Financial Stability Report, calling on other insurers and – more notably – the banks to, "take action to improve their understanding of natural hazards to proactively manage affordability challenges".

We couldn't agree more. The banks have been missing in action... Seemingly reluctant to actively embed climate-related risks in their business operations and risk management frameworks, but nevertheless content to continue making record profits.

I look forward to seeing how the banks choose to respond to RBNZ's challenge because insurers can't – and shouldn't – be shouldering the burden alone.

[pause]

In closing, risk-based pricing will continue to underpin Tower's competitive position and underwriting capability. And, together with improvements in digital and operational efficiencies and better expense control, will ensure that Tower remains well positioned to both support customers and deliver shareholder value.

[pause]

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

Blair Turnbull

Slide 4 – Business update

Kia ora, thank you Michael and good morning, everyone.

Thank you for joining us for our 2024 half year financial results.

Slide 5 - Results summary

Here is a summary of our results, which overall demonstrate Tower's positive operational and business performance.

On the tail of last year's events, we've never been clearer about our strategy of being a leading direct player in our New Zealand and Pacific markets and leveraging digital technology and data to drive efficiencies and excellent customer experiences and outcomes.

I will talk through these points in more detail shortly, but first, an overview of our performance this year.

Slide 6 – Our performance - positive operational and business performance

Gross written premium for the half year to 31 March increased to $291 million, up 20% on the same period last year, excluding divested portfolios. This was predominantly driven by prior period rating increases designed to mitigate the impacts of inflation, crime and increased reinsurance costs following the 2023 catastrophe events.

Customer numbers decreased to 309,000, down from 312,000 in HY23 partly due to our tightened risk appetite for high-theft motor vehicle models. Tower reduced high-risk motor policies by 3,500 policies in the half.

Enhanced processes, a reduction in motor theft claims and calmer weather have led to a decrease in the BAU claims ratio to 49.7% compared to 51.1% in HY23.

We are pleased to see our management expense ratio improve again to 31.3% versus 35% in HY23, thanks to our GWP growth combined with disciplined cost control and improved efficiencies from investments in digitisation and streamlining the business.

Large events costs for the half were negative $1.9m, due to a favourable revision to the most recent estimate for Vanuatu cyclone claims incurred in the prior year. There have been no large events in the half, compared to $37.3m of large event costs in HY23.

Reflecting our positive operational and business performance we are reporting an underlying profit after tax of $36.6 million, up from an underlying loss of $3.7m in HY23.

Reported HY24 profit is $36.0m compared to a loss of $5.1m at the HY23.

On the basis of these results Tower will pay an interim dividend of 3 cents per share.

Slide 7 – Continued premium growth

The prior period rating increases that were designed to mitigate the impacts of inflation, crime and increased reinsurance costs following the 2023 catastrophe events have taken effect and were the predominant driver of the 20% GWP growth in the half.

We continually review premiums to ensure we provide good value and competitive prices for our customers, while ensuring that the premiums we collect cover the costs of the claims we pay out.

This year Canstar announced Tower as the winner of its Home and Contents Insurer of the Year Award. The independent research panel noted the outstanding value offered by Tower's insurance products, especially its

Standard and Plus policy options, which feature comprehensive insurance cover at affordable prices.

Our dynamic rating ability enables us to respond quickly to market conditions. Inflation and reinsurance markets are currently looking to be more favourable in the second half of the year, and providing this eventuates, we will review premiums accordingly. Noting, of course, that our approach to risk-based pricing means that pricing for individual customers will always reflect their individual risks.

We are particularly pleased to see our proportion of house policies start to increase as we focus more on the home insurance market. We know that our home insurance customers hold more policies and stay longer than motor customers.

Reflecting this is the fact that 55% of policy cancellations in the half were customers who held just one motor policy with Tower. We offer more favourable pricing to lower risk vehicles and apply higher premiums to those that our data shows will potentially incur higher claims costs.

Our retention rate for our New Zealand risk portfolio remains stable at 77%. Half of our customers hold multiple policies with us and these customers stay with us for an average of eight years.

Slide 8 – Business unit distribution

Our strategy is underpinned by our three distribution channels - Tower Direct, Partnerships and our Pacific operation.

Tower Direct

Over the half year, we've continued to build rewarding and engaging relationships with customers.

Our flagship Tower Direct business now comprises 75% of our total GWP, up from 58% three years ago, in line with our strategy to focus on direct to consumer business.

A key contributor to this was a 14% increase in new home policies sold compared to HY23.

Partnerships

Our partnership channel continues to provide positive growth opportunities. In line with our strategy, our group referral model customer journey looks and feels like our Tower Direct experience and is focussed on one-off referral commissions at the point of policy sale.

This increases the benefit to Tower from customers who stay with us after the first year of business, compared to traditional, annual commission models.

In the half year, partnerships in force risks increased 6% to 106,000, driven in part by the 36% increase to 3,000 active advisors now referring customers to Tower over the year.

Pacific

This year marks 150 years in operation in the Pacific and we are continuing to digitise and simplify our offering in the region, aligning our New Zealand and Pacific activities more closely to deliver growth and efficiencies.

With this simplification in mind, we completed the sale of our Solomon Islands business in HY24, following on from the sale of our Papua New Guinea subsidiary in FY23. We expect the sale of our Vanuatu subsidiary to complete in the second half of FY24, pending regulatory approval.

Tower's first parametric product is now live in Fiji, Tonga and Samoa, following a successful trial launched in Fiji in FY22.

Slide 9 – Customer experience improves

Our digital platform is improving the overall Tower experience for our customers as they increasingly adopt our online sales and service channels.

In HY24 the proportion of New Zealand service and claims tasks completed online over the last 12 months increased to 57% and active My Tower users increased 10% to 156,000.

This uptake comes as we have released new features in My Tower such as our Ways to Save advice and the ability to change payment frequency online. We also completed the rollout of My Tower across our Pacific operations in FY23.

Customer satisfaction for New Zealand online sales engagements is positive - our combined New Zealand net promoter score for online experiences remains steady at 52%. Our overall NPS score has improved to 31%, up from 28% in September 2023.

With our core platform now live across the Tower group and our Suva Hub officially opened in February 2024, we are able to flex resource across Fiji and New Zealand, our two biggest markets.

The benefits of our 300-strong Suva Hub team continue to be realised, contributing to a decrease in our sales and service abandonment rate, now at 12% versus 20% in HY23.

An important part of delivering a positive customer experience is fixing things when we don't get them right. As we've shared previously, Tower is focused on putting things right for customers who have received incorrect discounts or benefits.

The most significant part of our remediation programme has been refunding customers who have not received correct multi policy discounts. We have made substantial progress towards remediating these customers and as of 30 April 2024, we had paid over $8.6m excluding GST to these customers.

Slide 10 – Continued improvement in MER

We are pleased to have achieved yet another reduction in MER to 31.3%, down from 35% in HY23.

Contributing to this MER improvement are Tower's GWP growth, combined with disciplined cost control, which has seen expenses rise at a lower rate than inflation, as well as business efficiencies from investments in digitisation and streamlining the business.

The expansion of our Suva hub has also delivered operational efficiencies. In the half year our Suva team answered 50% of all New Zealand sales and service calls to Tower, up from 16% in FY23.

Pleasingly, these improvements have also seen our management expenses increase at below the rate of inflation.

Our commission ratio continues to improve, reducing to 1.6% in the half from 2.5% in HY23 thanks to legacy portfolio purchases and referral arrangements that have reduced total commission.

Slide 11 – BAU claims ratio back within target range

Throughout FY23, BAU claims costs were challenged by large events, the frequency of motor claims, rapidly increasing inflationary pressures and supply chain capacity constraints, which impacted the severity, or cost of claims.

In the half year 2024 a number of key drivers have improved our BAU claims ratio from a peak of 59% in the second half of 2023 back to within our target range at 49.7%.

First, underwriting changes combined with targeted premium increases across motor and home have been effective in reducing claims from higher risk assets. General rating increases implemented to offset inflation and increased reinsurance costs are also now earning through.

Following record claims volumes due to the FY23 catastrophe events, Tower improved processes and implemented new technology to deliver faster and more efficient claims management. This has resulted in 50% of motor claims now being automatically allocated to our repair network via our digital journey, compared to 10% in the second half of FY23.

We have also reduced our reliance on third-party assessors and now more than 80% of house and motor claims are either assessed internally or sent straight through to builders and repairers. This has reduced both assessing costs and complexity.

External factors have also played a part with calmer weather in the half reducing both the frequency of house claims in New Zealand and across all claims from the Pacific region. The frequency of motor vehicle thefts has also reduced in the half.

Consequently, BAU open claims are now tracking closer to historical averages.

As at 27 May 2024 Tower had closed 97% of FY23 catastrophe event claims.

Slide 12 – Business performance continues to improve

Underlying NPAT excluding large events for HY24 was $35m.

As you can see from this chart, we are steadily improving our underlying business performance.

The fundamentals of our business are performing well, and investment income is also benefiting from higher interest rates.

Slide 13 - Financial performance title slide – Paul Johnston

I will now hand you over to our chief financial officer Paul Johnston who will take you through the details of our financial performance this year.

Slide 14 – Group underlying financial performance

Thank you, Blair.

Looking at the consolidated results, we can see that growth in GWP has been strong, increasing by $46m, or 20% - excluding divested portfolios - compared to HY23. This growth was driven by an appropriate mix of rating and underwriting actions, alongside modest volume growth in the house portfolio.

Motor theft and claims volumes continue to reduce following decisive underwriting actions.

Organisational efficiencies through the likes of our Suva Hub and digital journey improvements have helped reduce our BAU loss ratio to 49.7%.

No large weather events have been experienced in the half year.

Pleasingly, the MER improved to 31.3% as a result of expense efficiencies and scale.

Higher yields have seen net investment income increase by $3.7m to $10m.

Underlying NPAT including large events is $36.6m up from a $3.7m loss in HY23, reflecting Tower's financial resilience following catastrophic weather events experienced in FY23.

Towers' HY24 reported profit after tax is $36.0m.

Slide 15 – Movement in underlying NPAT

Here is the bridge between underlying NPAT in HY23 of minus $3.7m and underlying NPAT of $36.6m in HY24.

You can see that calmer weather with no large event costs, coupled with business growth, the BAU loss ratio falling back into target range, improved MER and investment income have helped support this result.

Reported profit was impacted by an increase to the CEQ valuation, and an increased customer remediation provision, as well as other non-underlying costs partially offset by the gain on sale of Solomon Islands business.

Due to the low level of open properties and outstanding provision, this will be the last period in which Canterbury Earthquake claims are reported in detail. You can find a slide with the HY24 detail in the appendix of this presentation.

Slide 16 – BAU claims ratio reduced

Over the past two and half years the insurance industry has been impacted by rapidly increasing inflationary pressures, the increasing frequency of motor claims and motor theft, as well as supply chain capacity constraints which have impacted the severity, or cost of claims.

Throughout FY23, these continued to track above historical norms in New Zealand, following a more subdued period due to Covid lockdowns in previous periods. Coupled with weather events, these factors led to our BAU loss ratio increasing.

Throughout FY23 and HY24, Tower applied targeted premium increases across motor and home to offset inflation, higher reinsurance costs and other increases. We also continue to work closely with supply chain partners while focusing on internal efficiencies and streamlining our business to moderate the impact on customers as much as possible.

These actions, combined with motor theft frequency beginning to reduce from its FY23 peak and calmer weather, which have lessened the frequency and severity of house claims have led to a reduction in our BAU claims ratio.

Our BAU claims ratio is now within the target range at 49.7%.

Slide 17 – Continued improvement in management expense ratio

We are pleased to see our management expense ratio continue to reduce with an improvement over the half year of 3.7% to 31.3%.

The effects of inflation were partially offset by cost efficiencies in the year.

Increased scale from business growth also enabled efficiencies and a 4.7% reduction in MER with a further 0.5% decrease in net commission expenses due to the legacy portfolio purchases.

Staff and other costs accounted for a 0.9% increase and a 0.6% increase in amortisation was due to legacy portfolio purchases and continued spend on investments to drive growth and efficiency automations.

Slide 18 – Higher investment returns as yields have increased

In HY24 net investment income increased to $10m before tax, this was $3.7m higher than the same period last year.

This increased income reflects interest rates stabilising, resulting in higher running yields.

Tower maintains a conservative investment policy with a focus on high credit quality and liquidity bonds, and a target duration for the core investment portfolio of six months.

Our strategy has mitigated the impact on our profit from macroeconomic factors and mark to market movements in the past. Throughout FY23 and HY24 this has allowed us to benefit from higher interest rates, as evidenced by the running yield on the core investment portfolio remaining stable at 5.67%, as at 31 March 2024.

The outlook for investment income is to remain stable across the second half of FY24.

Slide 19 – Reinsurance programme supports resilience

Tower's reinsurance strategy provides protection from volatility caused by large events and maintains financial flexibility to support growth, while underpinning strong solvency.

Our reinsurance arrangements for FY24 include catastrophe reinsurance of up to $750m for two events with an excess of $16.9m for each event. This was down from $889m in FY23 due to the EQC cap change which reduced the amount of coverage needed.

We also purchased coverage for a third event of up to $75m with a $20m excess.

Our FY24 retention limits and programme premium increases were mitigated by our three-year rolling contracts. Tower's FY24 large event allowance is $45m, we have not recorded any large events in the half. Full utilisation of the large events allowance is assumed in our guidance for the year.

Slide 20 - Capital and solvency position

Increased profits and the progress we have made in settling catastrophe event claims and collecting the recoveries from reinsurers in the half have further improved our solvency position compared to 139% at the 2023 full year. With a solvency ratio of 162%, we are now holding $117.1m above the minimum capital required for solvency, which accounts for the dividend payment. This is an increase from $79.8m as at 30 September 2023.

Tower's regulatory solvency position is calculated under the new Reserve Bank of New Zealand (RBNZ) Interim Solvency Standard (ISS), which applies from the current financial year.

On 15 May 2024 Tower uploaded a presentation to the NZX and ASX detailing the impacts of these new regimes. While the presentation and disclosure of information in Tower's financial statements from the half year 2024 will change, the standards will not affect Tower's strategy, profitability and dividend policy.

We note that the RBNZ is proposing a second amendment to the ISS, which is not expected to be issued and effective until Tower's 2025 financial year.

The proposed changes to the ISS are likely to have a material impact on Tower's regulatory solvency position and will reduce the solvency margin.

We were pleased that Tower's A- credit rating was reaffirmed in April 2024 by AM Best.

The Board has declared an interim dividend of 3 cents per share.

Slide 21 – Looking forward

Thank you. I will now hand back to Blair who will provide an update on our guidance and priorities for FY24.

Blair Turnbull

Thank you, Paul.

Slide 22 – Second half priorities

In line with our strategy our priorities for the remainder of the year are clear.

We will continue to invest in creating leading customer experiences and initiatives to support affordability, while targeting the right risks at the right price.

This includes adding landslide and sea surge risk ratings to our automated customer-facing quote-to-buy tool, where customers can already see their home's risk ratings for earthquake and flood hazards.

In the second half we will continue to focus on offering competitive pricing. Should inflation and the reinsurance market soften near the end of the year as we are currently expecting, then we'll see lower levels of premium increases coming through.

In the coming year, we anticipate the proportion of new business from home insurance policy sales to grow as we target high quality risks.

And we will continue to grow organically through our existing partnerships.

An important priority is addressing the multi-policy discount remediation and other customer remediations while also ensuring we address the root causes of errors that have led to these remediations.

In the second half, we will continue to focus on delivering efficiency, digitisation and process improvements.

We will launch new house and motor assessing systems to reduce assessment times and repair costs. And we will continue to leverage our Suva hub to increase efficiency and customer benefits. Our claims transformation project is already delivering benefits and we expect this to further accelerate in the coming 12 months as key assessment and workflow initiatives are delivered.

We will also continue to invest in products and initiatives that foster future climate change resilience and sustainability.

Slide 23 – FY24 guidance and future targets

In FY24 Tower expects GWP growth - excluding revenue from sales of subsidiary operations - of between 10% and 15%.

We have set a conservative large events allowance of $45m for FY24 versus $56m in the prior year. The half year release of $1.9m due to a favourable revision to the most recent estimate for Vanuatu cyclone claims in FY23 has reduced the FY24 large events guidance expense to $43m.

Consistent with FY23, we measure large events as those which have a total cost of more than $2m.

We expect further improvements to our management expense ratio which we anticipate will be between 30% and 32%. We are on track to meet this target with a current MER of 31.3%.

As the rating and other actions that we have in place to address inflation continue to improve our BAU loss ratio, we expect our combined operating ratio to reduce to less than 93%, down from previous guidance of between 95% and 97%.

Assuming full utilisation of the $45m large events allowance Tower anticipates underlying NPAT to be greater than $35m.

However, any unused portion of the large events allowance at year end will increase underlying NPAT and improve the full year result. If there are no large events this would represent an additional $32m of underlying NPAT (or $45m less tax).

Our FY25 medium-term targets will see our focus in the next financial year on delivering another 10% to 15% GWP growth, a management expense ratio of less than 28% and, a combined operating ratio of less than 91%. We are targeting a return on equity of between 12% and 15%.

In FY26 we plan to deliver another 10% to 15% GWP growth, a management expense ratio of less than 26% and, a combined operating ratio of less than 87%. We will be targeting a return on equity greater than 15%.

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