



# Leading light

Half year results to 31 March 2014

*27 May 2014*

# Leading light

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It contains summary information about TOWER as at 31 March 2014, which is general in nature, and does not purport to contain all information a prospective investor should consider when evaluating an investment. It is not an offer or invitation to buy TOWER shares.

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# *Michael Stiassny*

Chairman

*“Deliver attractive  
shareholder returns  
by growing a general  
insurance business that  
is a leading light in New  
Zealand and the Pacific”*



# Progress on strategy

+

New operating model *implemented*

General insurance first half *net profit* after tax  
up strongly

First half *dividend 6.5 cents, up 30%*

*Capital returned* via buy back and bonds repaid

TOWER has further surplus *capital to support  
shareholder returns and growth*

*David Hancock*  
CEO





# What we are covering today

- + *Performance highlights*
- + *General insurance and operations*
- + *Capital and risk management*
- + *Strategy and outlook*

# Performance *highlights*



General Insurance profit up strongly, supported by rate increases due to rising reinsurance costs

Investment in brand, product and service to support growth in direct and alliance channels

Improved customer satisfaction reflected in rising Net Promoter Score and lower policy lapse rates

Focus on staff engagement, efficiency and cost structure to support growth in multiple channels

Pacific earnings recovery and identified growth path through strong brands and alliances

Capital returned, bonds repaid and strong solvency maintained. Canterbury rebuild supports progress toward capital release



# Financial highlights



	HY14	HY13	change on pcp
<b>General insurance</b>			
Reported			
Gross written premium (\$m)	139.2	132.5	5%
General insurance NPAT (\$m)	11.8	(14.8)	na
Underlying <sup>1</sup>			
Claims ratio (%)	50.4%	52.1%	-170bp
Combined ratio (%)	88.3%	91.0%	-270bp
Underwriting profit (\$m)	13.5	9.7	39%
General insurance NPAT (\$m)	13.1	5.9	122%
<b>Group</b>			
Reported NPAT (\$m)	13.1	44.2	-70%
EPS (c) <sup>2</sup>	4.96	(3.5)	na
DPS (c)	6.5	5.0	30%

- Combined ratio improved
- Underlying General Insurance NPAT up 122%
- Adverse weather impacting industry returns
- EPS remains in transition

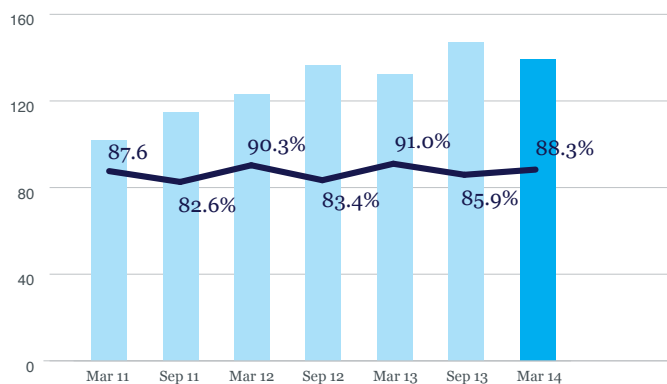


# Performance *indicators*



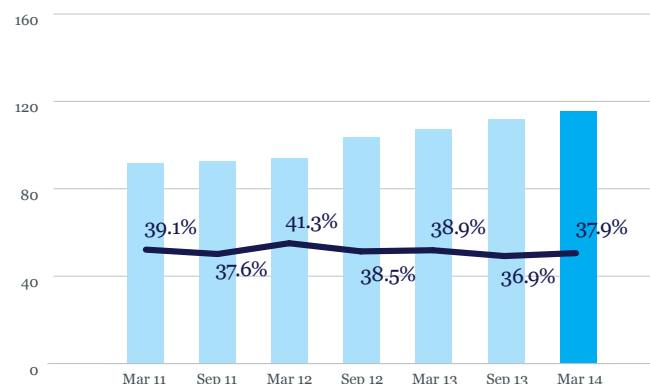
## GROSS WRITTEN PREMIUM

- Gross written premium (\$m)
- Underlying combined ratio (%)



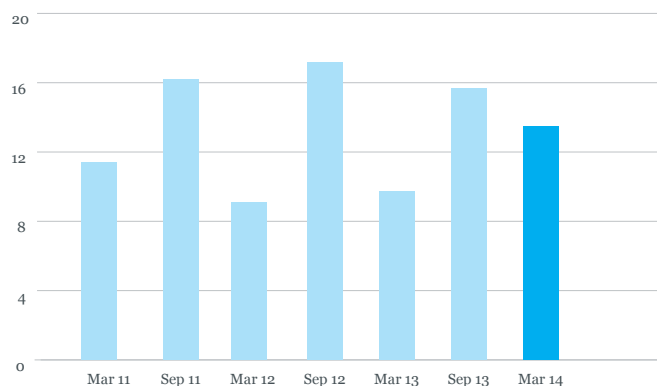
## NET EARNED PREMIUM

- Net earned premium (\$m)
- Underlying expense ratio (%)



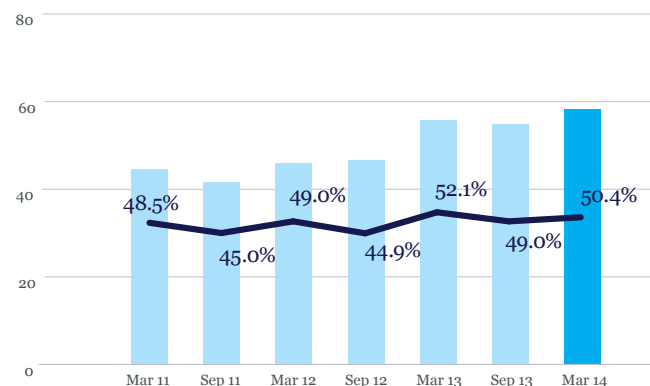
## UNDERWRITING PROFIT

- Excluding Canterbury and Australia revaluation and foreign exchange loss (\$m)



## CLAIMS

- Claims excluding Canterbury (\$m)
- Claims ratio excluding Canterbury and Australia revaluation (%)





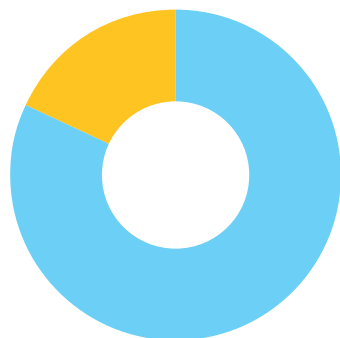
# A New Zealand and Pacific insurer

+

HY14:

**\$139.2<sub>m</sub>**

**GWP** (6 MONTHS)

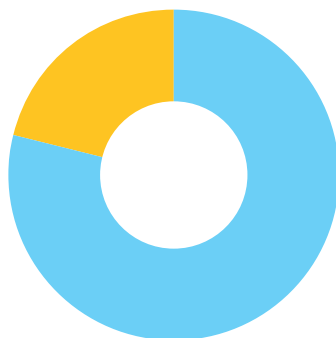


● New Zealand 82%  
● Pacific Islands 18%

HY14:

**\$13.1<sub>m</sub>**

**UNDERLYING NPAT<sup>1</sup>**

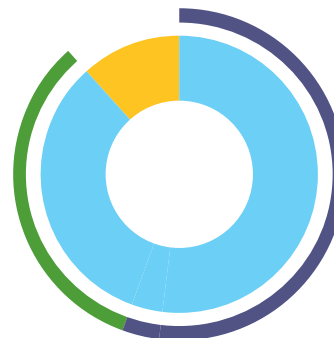


● New Zealand 79%  
● Pacific Islands 21%

As at 31 March 2014:

**496,167**

**Inforce policies**

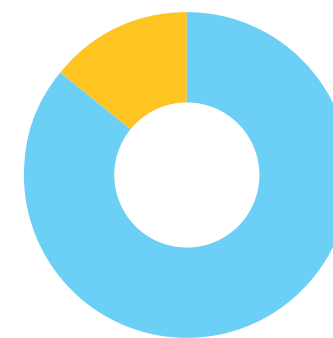


● New Zealand 87%  
● Pacific Islands 13%

As at 31 March 2014:

**264,565**

**Clients<sup>2</sup>**



● New Zealand 86%  
● Pacific Islands 14%

● New Zealand - Direct 280k ▲ 1%<sup>3</sup>  
● New Zealand - Alliances 153k ▼ 4%<sup>3</sup>

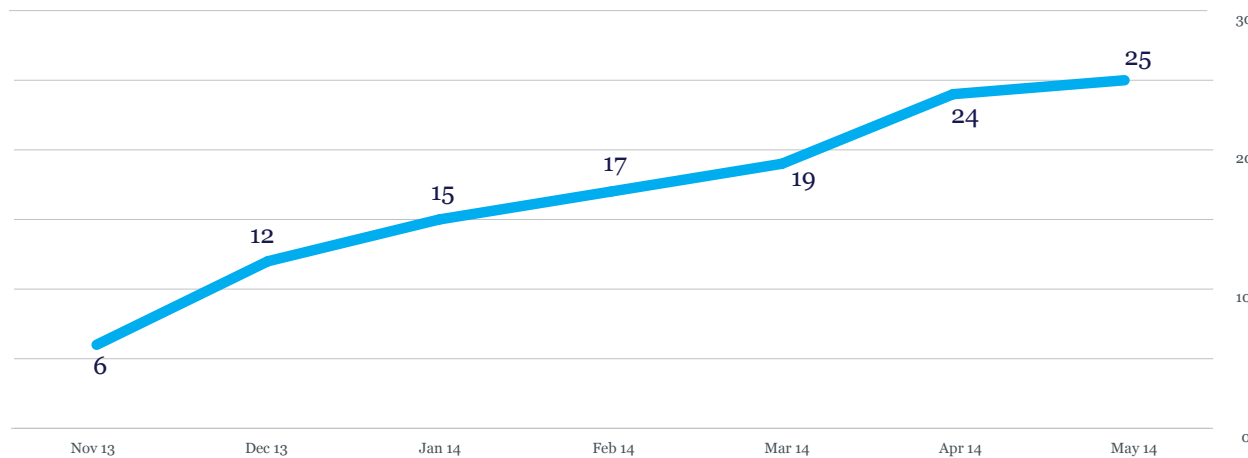
# Priorities



# Customer retention and *growth*



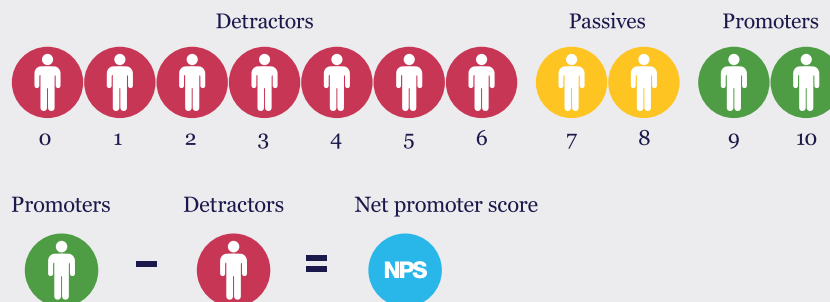
NET PROMOTER SCORE (NPS)



- Net promoter score (NPS) is a benchmark for customer loyalty
- Promoters will
  - hold more policies with us
  - hold higher value policies
  - stay with us longer
- NPS improved from 6 to 25 between November and May
- Specialist save team established with 80% save rate
- Cross-selling between lines to increase multiple policies
- Lower lapse rates supports revenue, with improvement from 13.7% to 13.5%<sup>1</sup> in last half

## METHODOLOGY

Customers are asked:  
“On a scale of 0 to 10,  
how likely would you be  
to recommend TOWER  
to family, friends or  
colleagues?”

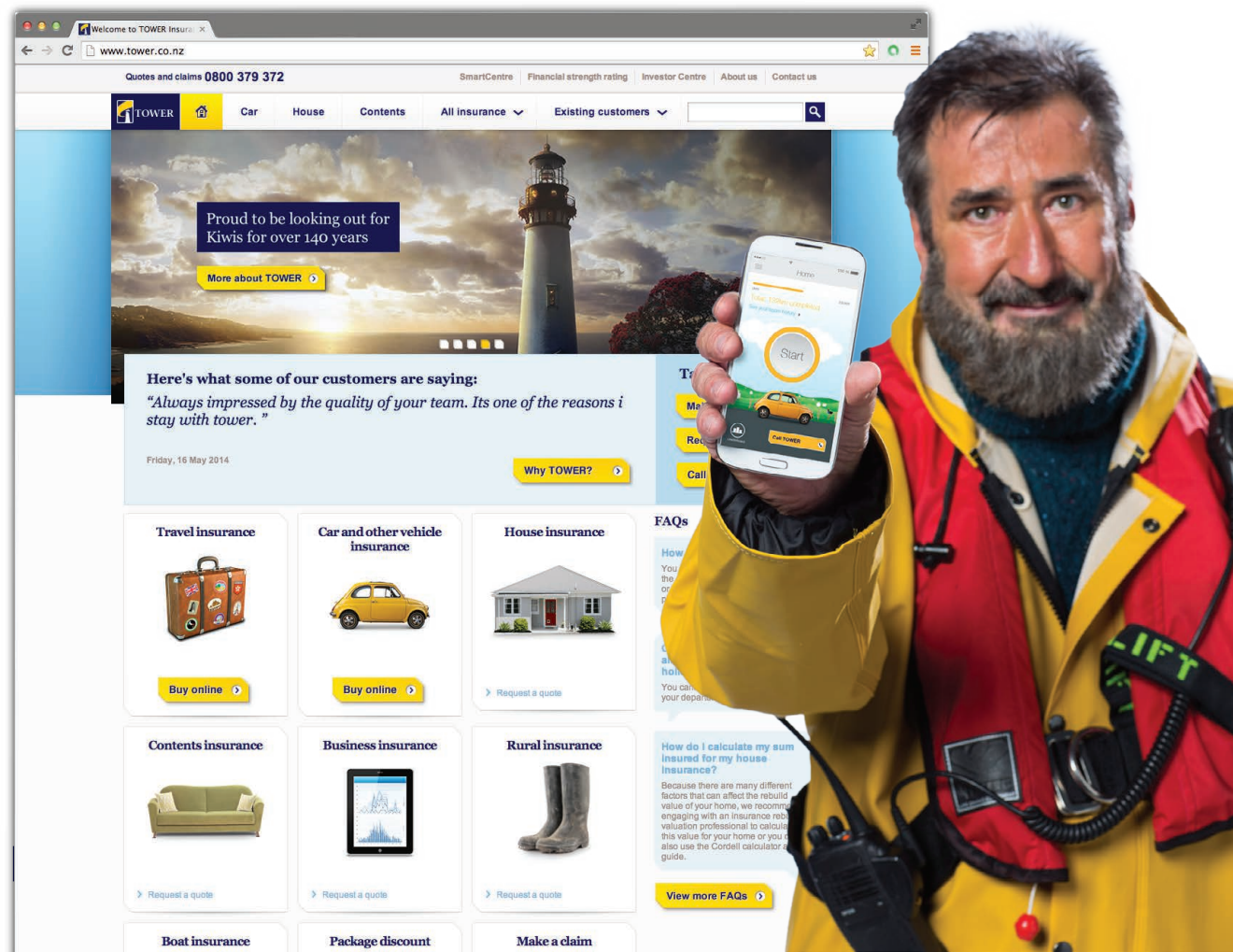




# Customer focus – *brand*



## Powerful brand and product initiatives



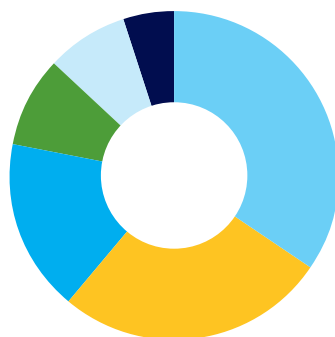
- Refreshing our brand with multi-channel lighthouse campaign, building on TOWER's legacy of more than 140 years of looking out for Kiwis
- Response has been strong with improvement in key brand attributes including being flexible and easy to do business with
- Significant opportunity to further leverage brand to improve share of new business
- Product innovation a key focus – introduction of telematics into New Zealand through SmartDriver app
- App downloads ahead of expectations and reviews positive, helping position TOWER as a product innovator

# Leadership in Pacific markets



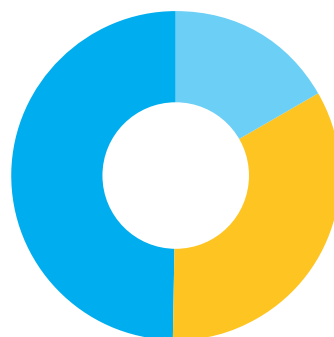
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HY14 GWP BREAKDOWN BY DISTRIBUTION



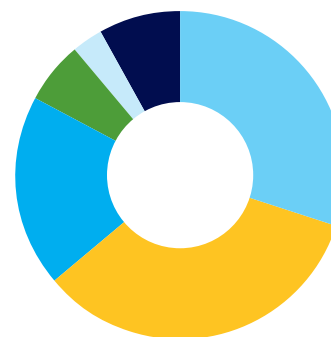
- PNG 35%
- Fiji 27%
- Samoa<sup>1</sup> 16%
- Cook Islands 9%
- Solomon Islands 8%
- Tonga 5%

HY14 GWP BREAKDOWN BY CHANNEL



- Alliances 17%
- Broker 34%
- Direct 49%

HY14 GWP BREAKDOWN BY PRODUCT



- Commercial 30%
- Motor 34%
- Home & contents 19%
- Workers comp 6%
- Accident 3%
- Other 8%

- Pacific NPAT \$2.7m
- Long-term businesses: more than 100 years history in some markets
- Multi-country alliances with high quality banking partners
- Net promoter score of +42 for Pacific showing strong customer loyalty
- Rejuvenated online presence driving up to 20% of direct lead generation in Fiji
- Consistent and careful underwriting – attractive margins
- Significant growth potential in the region from our strong brand and expertise

# Management of *risk and capital*

Michael Boggs  
CFO



# TOWER Group

## *Profit summary*



\$ millions	Half year ended		
	Mar 2014	Mar 2013	Sep 2013
General Insurance	13.1	5.9	13.1
Life <sup>1</sup>	3.7	9.0	3.0
Health	-	0.9	-
Investments	-	4.0	-
<b>Business unit net profit after tax</b>	<b>16.8</b>	<b>19.8</b>	<b>16.1</b>
Corporate financing costs and investment income	(1.6)	(2.0)	(1.8)
Corporate expenses	(1.4)	(1.4)	(2.0)
<b>Profit excluding the impact of discount rate and abnormal items</b>	<b>13.8</b>	<b>16.4</b>	<b>12.3</b>
Discount rate effect	-	(2.9)	(6.1)
Net impact of abnormal items <sup>2</sup>	(0.7)	30.7	(16.0)
<b>Reported net profit after tax<sup>3</sup></b>	<b>13.1</b>	<b>44.2</b>	<b>(9.8)</b>

- Health, Investment and majority of Life business sold in prior financial year
- Corporate expenses reduced, with first half reflecting higher costs associated with shareholder meetings and communications
- One-off abnormal items (refer to Appendix) had an unfavourable impact of \$0.7m largely reflecting impact of repatriating Australian capital

1. FY13 periods includes profits from significant part of life business sold in FY13

2. Abnormal items for HY14 include net sale related gains \$0.6m, Canterbury earthquakes (\$0.1m) and foreign exchange impact of Australian revaluation (\$1.2m)

3. A number of items are classified as discontinued operations in the Group financial statements



# TOWER Life (N.Z.)

## *Retained life business*



NPAT of \$3.7m, well above full year plan expectations of \$2.8m due to one-off earning improvements

Stable business with a focus on customer service (NPS introduced) and productivity

Closed book in run off with no new business being written

Moved to new Wellington premises with centralised support

Book value of \$39.1m at 31 March 2014 (including \$15m minimum solvency margin)



# Balance sheet summary



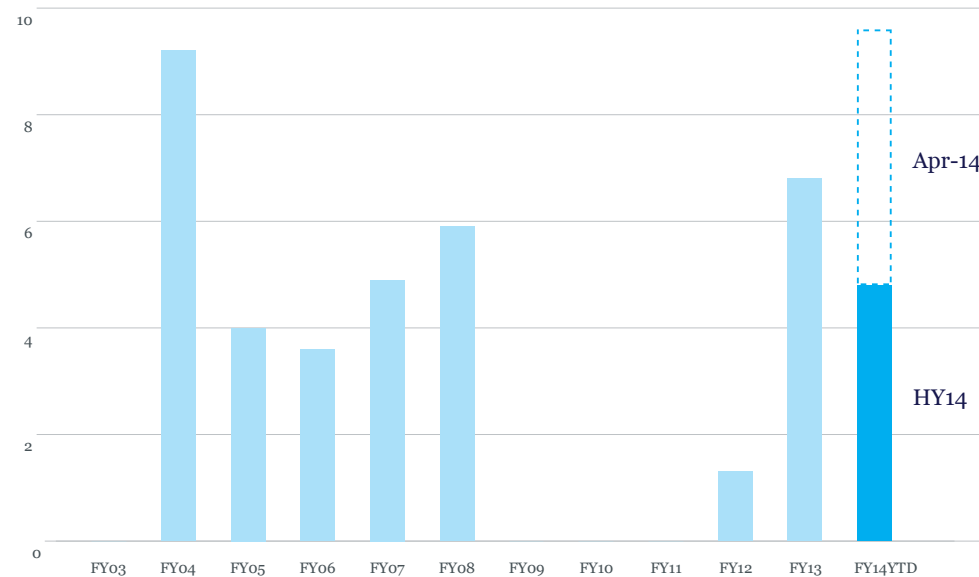
\$ millions	Balance as at		
	Mar 2014	Mar 2013	Sep 2013
Cash & call deposits	286.6	255.2	350.0
Total investment assets	809.6	936.4	821.3
Deferred acquisition costs	18.4	17.6	18.2
Intangible assets	32.3	36.9	30.2
Other operational assets (liabilities)	398.4	656.8	476.9
<b>Total assets<sup>1</sup></b>	<b>1,545.3</b>	<b>1,902.9</b>	<b>1,696.6</b>
Policy liabilities and insurance provisions	(1,077.0)	(1,181.7)	(1,161.1)
External debt	(83.2)	(82.4)	(82.8)
Other operational (liabilities) assets	(57.5)	(114.6)	(71.6)
<b>Total liabilities<sup>1</sup></b>	<b>(1,217.7)</b>	<b>(1,378.7)</b>	<b>(1,315.5)</b>
<b>Total equity</b>	<b>327.6</b>	<b>524.3</b>	<b>381.1</b>

- Drivers of equity change to pcg:
  - Capital repayments of \$171.8m
  - Dividend payments of \$22.8m
- Significant changes in operational assets as a result of divestiture of Investments and majority of Life businesses

# Adverse weather impacts



NZ LARGE CLAIM EVENTS<sup>1</sup>  
(EXCLUDING EARTHQUAKES) (\$m)



- Weather events have a significant impact
- The last two years has seen a spike in claims for the industry
- Continuous improvement in underwriting
- Pricing for risk

# Capital and customer focus – Canterbury rebuild



TOWER continues to lead the industry in settling earthquake claims with 81%<sup>1</sup> by number and 71% by value of all claims now settled and closed. TOWER's construction programme for rebuilds and repairs continues to build momentum, with 87 rebuild and major repairs completed over the period.

TOWER is on track to substantially settle and complete all Canterbury earthquake related claims by the end of 2015.

- No changes in net provisions
- Progress to date supports review of minimum solvency margin

TOTAL PROPERTIES WITH CLAIMS  
AS AT MARCH 2014  
10,617



PROPERTIES TO BE REBUILT  
AS AT MARCH 2014  
1,096

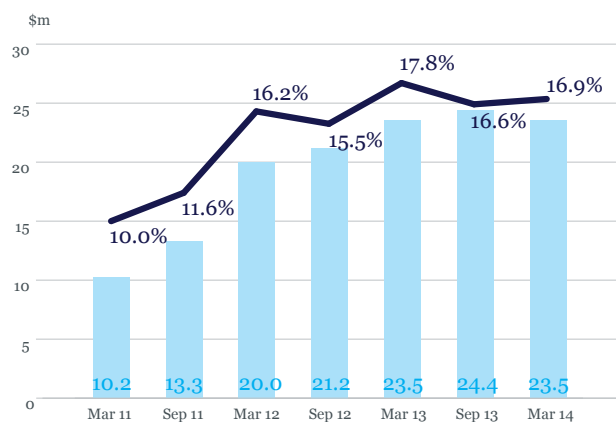




# Capital protection – *reinsurance*

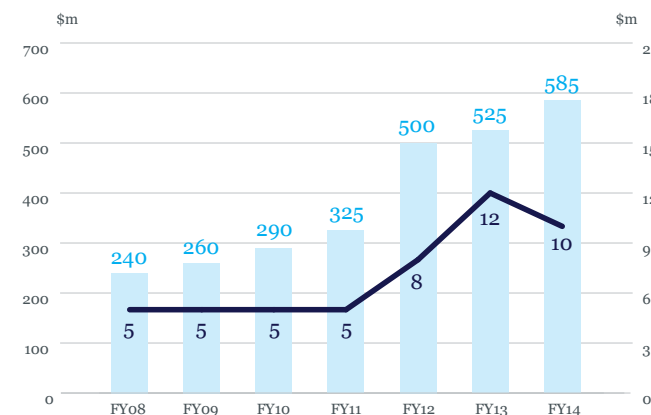


REINSURANCE EXPENSE<sup>1</sup>



- Reinsurance expense (\$m)
- Percent of GWP (%)

REINSURANCE  
CATASTROPHE COVER



- Total cover (\$m)
- Retention (\$m)

- Reinsurance expense easing following large increases as a result of Canterbury earthquakes
- Current catastrophe cover (two events) \$585m with \$10m retention
- Maximum retention per individual risk is NZ\$1m (or US\$1m for American Samoa)

# Capital *management*



## Achievements *to date*

- Buy back offers completed with \$171.8m returned to investors recently
  - April 2013 \$119.2m
  - January 2014 \$ 52.6m
- Dividend policy implemented with payout ratio of 90-100% of NPAT
- Australian business closed and capital repatriated
- Bond redemption of \$81.8m completed in April 2014

## Moving *forward*

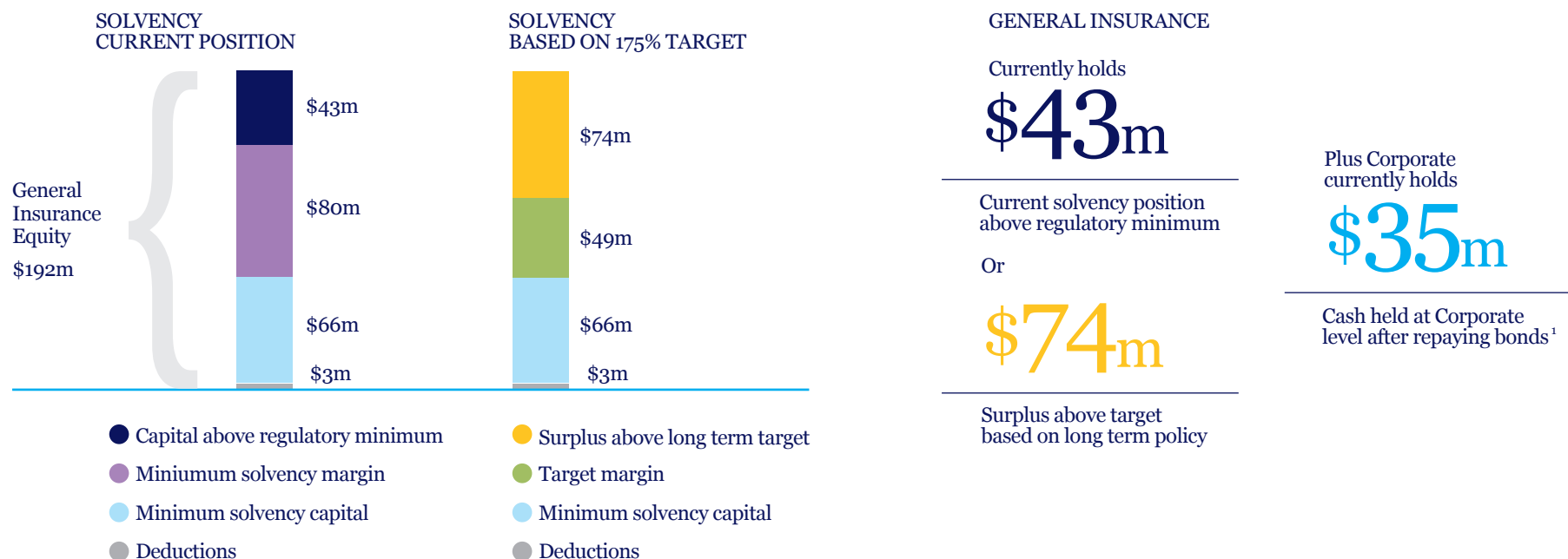
- Ongoing capital management remains a priority
- Options with regard to small parcel shareholders in progress

# Capital and *solvency* General Insurance



TOWER has a long term policy of retaining within its licensed General Insurance entity 175% of the minimum solvency capital (MSC) required under the Insurance (Prudential Supervision) Act 2010.

Given the minimum solvency margin (MSM) requirement, while the Canterbury rebuild completes, TOWER has not been able to implement this policy. However, TOWER continues to hold significant capital above the current solvency minimums required by the Reserve Bank of New Zealand and those required under its long term policy.



In addition, at 31 March 2014 there was \$118.9m of cash held at Corporate level of which \$83.5m has been used to repay bonds and interest in April 2014, leaving a balance of \$35.4m.<sup>1</sup>



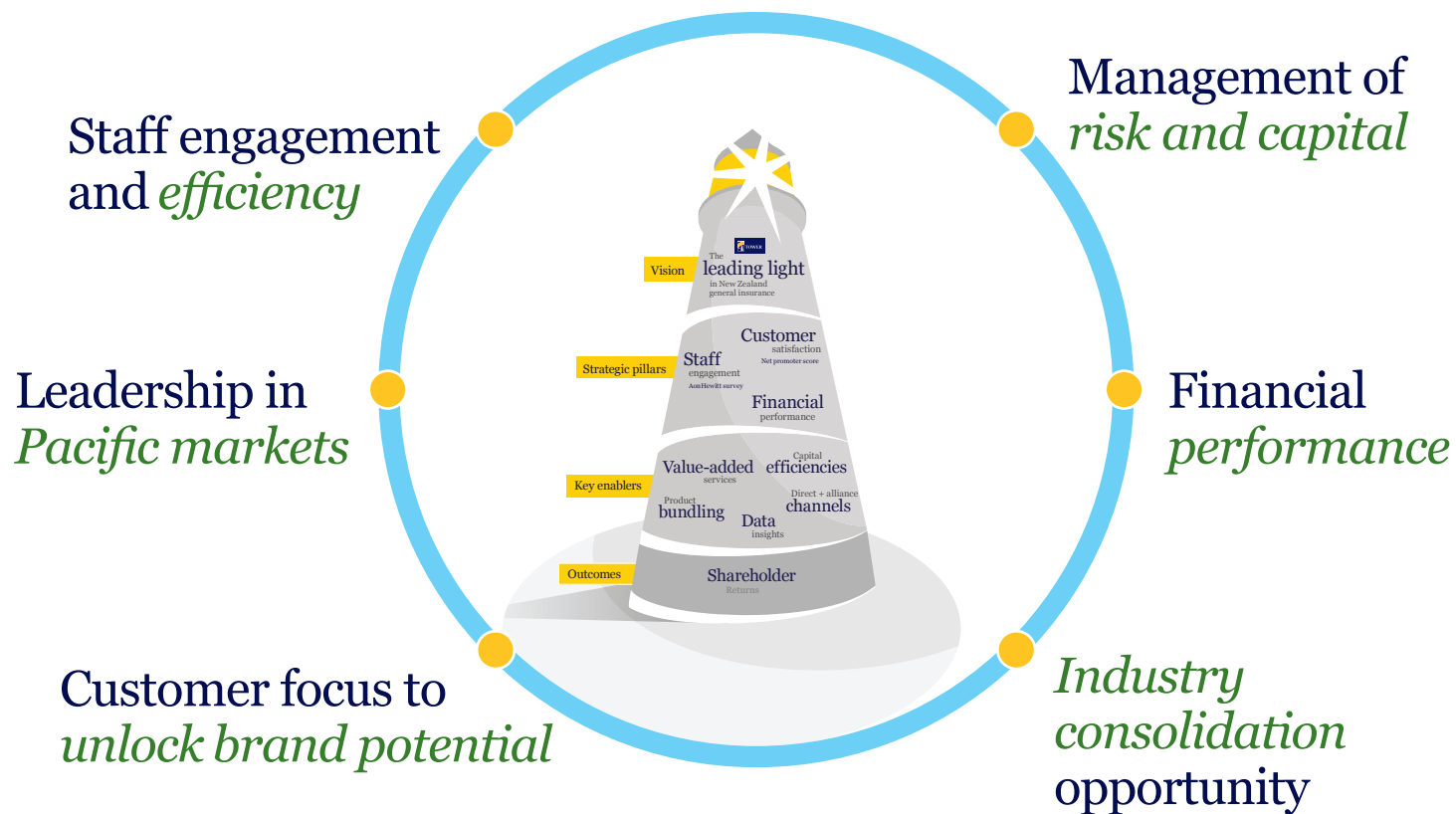


# Strategy and *outlook*



# TOWER *leading light*

The path to improving  
shareholder returns



# Strategic *initiatives*



- Continue to drive staff engagement and efficiency
- Utilisation of technology to lower costs and support service and better value proposition
  - SmartDriver
  - growing online sales
  - new computer system step-change in cost ratios in medium-term
- Building a customer focused culture and delivering on claims and risk management
- Grow share of motor
- Growing distribution capability via new alliances
- Pursuing growth opportunities in the Pacific
- Examine further capital release for shareholders where possible

# Outlook



## Industry

- Reinsurance costs and premiums easing post Canterbury
- Increasing cost of compliance and regulation
- Technology shift improving service and risk management
- Customers highly informed and mobile with price and service to remain key drivers of customer choice
- Industry consolidation
- New entrant risk

## TOWER

- Revenue growth and cost containment focus continues in second half
- New product development
- On track to go live with new core system
- Weather events remain a concern, with April 2014 claims unfavourable
- Pacific marketing reinvigoration paying off
- Progress towards 2015 completion in Canterbury
- Capital management a key driver of shareholder returns







*Deliver attractive shareholder  
returns by growing a general  
insurance business that is a  
leading light in New Zealand  
and the Pacific*

## Questions



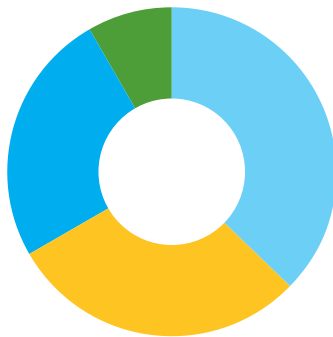


# Appendices

# General Insurance *New Zealand* overview

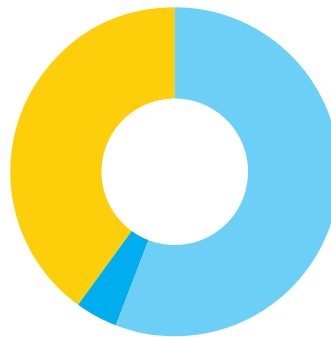


HY14 GWP INFORCE  
POLICIES BREAKDOWN  
BY PRODUCT



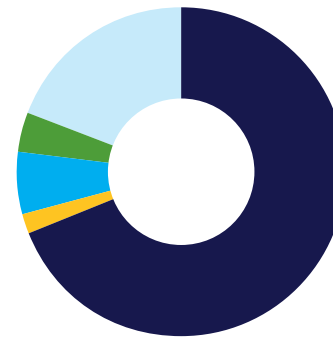
- Home 40%
- Motor 23%
- Contents 26%
- Other 11%

HY14 GWP INFORCE  
POLICIES BREAKDOWN  
BY DISTRIBUTION CHANNEL



- Direct 59%
- Fintel 6%
- Alliances 35%

HY14 NEW BUSINESS GWP  
BY DISTRIBUTION CHANNEL



- TOWER and FinTel phone sales 64%
- Online 2%
- Small and medium enterprises 9%
- Rural 4%
- Alliances 21%



# Underlying performance

## *General Insurance*

\$ millions	Mar-14	Sep-13	Mar-13	Sep-12	Mar-12	Sep-11	Mar-11
Gross earned premiums	139.1	136.4	130.8	125.0	113.9	106.2	102.1
Reinsurance	(23.5)	(24.4)	(23.5)	(21.2)	(20.0)	(13.3)	(10.2)
Net premiums	115.6	112.0	107.3	103.8	93.9	92.9	91.9
Net incurred claims <sup>1</sup>	(53.4)	(48.7)	(52.6)	(46.4)	(44.9)	(41.7)	(44.6)
Large claim events <sup>2</sup>	(4.8)	(6.2)	(3.3)	(0.2)	(1.1)	-	-
Management and sales expenses	(43.9)	(41.3)	(41.7)	(40.0)	(38.8)	(35.0)	(35.9)
<b>Underwriting profit</b>	<b>13.5</b>	<b>15.7</b>	<b>9.7</b>	<b>17.2</b>	<b>9.1</b>	<b>16.2</b>	<b>11.4</b>
Investment income	5.7	3.9	4.2	7.9	4.5	7.5	4.0
<b>Profit before tax – normal trading</b>	<b>19.2</b>	<b>19.6</b>	<b>13.9</b>	<b>25.1</b>	<b>13.6</b>	<b>23.7</b>	<b>15.4</b>
Income tax expense	(6.1)	(6.5)	(8.0)	(6.9)	(5.0)	(9.0)	(5.4)
<b>Profit (loss) after tax before impact of Canterbury earthquakes and revaluation of Australian liabilities</b>	<b>13.1</b>	<b>13.1</b>	<b>5.9</b>	<b>18.3</b>	<b>8.6</b>	<b>14.7</b>	<b>10.0</b>
Impact of Canterbury earthquakes	(0.1)	(0.5)	(14.7)	(10.4)	(3.2)	(16.8)	(5.4)
Revaluation of Australian liabilities and foreign exchange loss	(1.2)	(1.1)	(6.0)	-	-	-	-
<b>Profit (loss) after tax<sup>3</sup></b>	<b>11.8</b>	<b>11.5</b>	<b>(14.8)</b>	<b>7.8</b>	<b>5.4</b>	<b>(2.1)</b>	<b>4.6</b>

Underlying ratios	Mar-14	Sep-13	Mar-13	Sep-12	Mar-12	Sep-11	Mar-11
Combined ratio	88.3%	85.9%	91.0%	83.4%	90.3%	82.6%	87.6%
Claims ratio	50.4%	49.0%	52.1%	44.9%	49.0%	45.0%	48.5%
Expense ratio	37.9%	36.9%	38.9%	38.5%	41.3%	37.6%	39.1%

1. Net incurred claims includes \$1.8m of suspected arson fires in Cook Islands

2. Claim events >\$1m

3. The impacts of the Canterbury earthquakes and the discontinuation of the Australian business are classified differently in the Group financial statements

# Reported profit

## *General Insurance*

\$ millions	Mar-14	Sep-13	Mar-13	Sep-12	Mar-12	Sep-11	Mar-11
Gross earned premiums	139.1	136.3	130.8	125.0	113.9	106.2	102.1
Reinsurance	(23.5)	(24.4)	(23.5)	(21.2)	(20.0)	(13.3)	(10.2)
Catastrophe reinsurance reinstatement	-	(0.7)	-	-	-	(14.9)	(2.7)
Net premiums	115.6	111.2	107.3	103.8	93.9	78.0	89.2
Net incurred claims <sup>1</sup>	(53.4)	(49.8)	(58.6)	(46.4)	(44.9)	(41.7)	(44.6)
Large claim events <sup>2</sup>	(4.8)	(6.2)	(3.3)	(0.2)	(1.1)	-	-
Impact of Canterbury Earthquakes	(0.1)	0.0	(20.4)	(14.5)	(4.4)	(9.1)	(5.0)
Management and sales expenses <sup>3</sup>	(45.8)	(41.3)	(41.7)	(40.0)	(38.8)	(35.0)	(35.9)
<b>Underwriting profit</b>	<b>11.5</b>	<b>13.9</b>	<b>(16.6)</b>	<b>2.7</b>	<b>4.7</b>	<b>(7.8)</b>	<b>3.7</b>
Investment Income	5.7	3.9	4.2	7.9	4.5	7.5	4.0
<b>Profit before tax</b>	<b>17.2</b>	<b>17.8</b>	<b>(12.4)</b>	<b>10.6</b>	<b>9.2</b>	<b>(0.3)</b>	<b>7.7</b>
Income tax expense	(5.4)	(6.2)	(2.5)	(2.8)	(3.8)	(1.8)	(3.1)
<b>Profit (loss) after tax</b>	<b>11.8</b>	<b>11.5</b>	<b>(14.8)</b>	<b>7.8</b>	<b>5.4</b>	<b>(2.1)</b>	<b>4.6</b>

1. Net incurred claims includes \$1.8m of suspected arson fires in Cook Islands

2. Claim events > \$1m

3. Management and sales expenses includes \$1.9m of foreign exchange losses relating to release of Australian liabilities

4. See underlying profit represented on page 31

# Balance sheet

\$ millions	As at March 2014			
	GI	TLNZ	Corp	Total Group
Cash and call deposits	159.0	8.7	118.9	286.6
Total investment assets	133.4	676.2	-	809.6
Deferred acquisition costs	18.4	-	-	18.4
Intangible assets	-	-	32.3	32.3
Other operational assets/(liabilities)	322.9	43.0	32.5	398.4
<b>Total assets<sup>1</sup></b>	<b>633.7</b>	<b>727.9</b>	<b>183.7</b>	<b>1,545.3</b>
Policy liabilities and insurance provisions	(397.9)	(679.1)	-	(1,077.0)
External debt	-	-	(83.2)	(83.2)
Other operational (liabilities)/assets	(43.6)	(9.7)	(4.2)	(57.5)
<b>Total liabilities<sup>1</sup></b>	<b>(441.5)</b>	<b>(688.8)</b>	<b>(87.4)</b>	<b>(1,217.7)</b>
<b>Total equity</b>	<b>192.2</b>	<b>39.1</b>	<b>96.3</b>	<b>327.6</b>

# Abnormal items

\$ millions (net of tax)	Half year ended March 2014
Net sale related gains <sup>1</sup>	0.6
Australian revaluation and foreign exchange loss <sup>2,3</sup>	(1.2)
Impact of Canterbury earthquakes <sup>2</sup>	(0.1)
<b>Net impact of one off items</b>	<b>(0.7)</b>

1. Adjustments to gains on sale for Health, Life and Investment business sales

2. Reflected as adjustments in underlying profit in General Insurance business

3. Reflects foreign exchange loss on release of capital following sale of Australian liabilities