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The leading light

October 2014

Welcome to the first issue
of the The leading light, the newsletter
for TOWER investors.

TOWER has a terrific story to tell. TOWER has been insuring Kiwis and the people of the Pacific Region for 145 years. We are focused on delivering smart, attractive solutions to our customers and rewarding our investors.

We've driven a significant amount of change in the business in the past year, making it stronger, more efficient and customer focused.

This issue of 'The leading light' covers key areas of our business, profiling TOWER's motor insurance business, our growing Pacific Region and featuring a report on the good progress made in the settlement of Christchurch earthquakes claims.

We hope you enjoy the first issue of The leading light and welcome your feedback.

Michael Stiassny
Chairman



Michael Stiassny
Chairman



David Hancock
Chief Executive Officer

Our most recent financial results for the six months to March 2014 show us well positioned for continued growth. Our gross written premium grew to \$139.2 million, up 5% on the same period last year and underlying profit in the general insurance division grew 122% to \$13.1 million. We also increased the first half dividend to shareholders by 30% to 6.5 cents per share. It was pleasing to see the Pacific Division return to profitability during the Half Year. We made our first investment in the Pacific in 1874, when we entered the Fiji market, and the Region remains a significant growth area for our business.

It has been a busy six months since those results. In April 2014 we launched the SmartDriver app, which utilises technology to offer safer drivers lower insurance premiums. We also continue to invest in back-office technology to improve business efficiency. In August 2014 we went live with Insurance Faces, a new internal system which provides more streamlined and flexible customer

service. TOWER continues to invest heavily in customer service and our efforts have been rewarded with a big improvement in our Net Promoter Score (a key measure of customer satisfaction and loyalty) from +6 to +25 in just six months.

In August 2014, we completed the sale of our remaining life insurance business, TOWER Life (NZ) Limited, to Foundation Life (NZ) Holdings Limited for \$36 million, as we concentrate on the general insurance market. Also in August 2014, we welcomed news that the Reserve Bank of New Zealand had completed its annual solvency review and confirmed a \$30 million reduction in the funds required to be held by TOWER as part of our additional Minimum Solvency Margin requirement. This reflects the solid progress we have made in the settlement of our Canterbury earthquake claims, which currently sit at 86% settled and closed.

The sale of TOWER Life (NZ) Limited and the release of \$30 million of capital means that the amount of capital we hold in reserve is well above the regulatory minimum. Managing capital and risk well is vital for the long term health of an insurance company and you can be reassured that TOWER does this diligently, with ongoing capital management remaining a priority and a key driver of shareholder returns. TOWER is the only major New Zealand-based general insurer in a market dominated by foreign brands and our vision is to be the leading light in New Zealand general insurance. We believe there are significant growth opportunities in personal insurance lines and further value can be unlocked in the business by building our brand, improving service, increasing efficiency and inspiring our staff to do their best for customers.

We look forward to keeping you informed of our progress in the months ahead.

David Hancock
Chief Executive Officer

TOWER reaches 86% settlement of earthquake claims

TOWER has now settled 86% of claims relating to the Canterbury earthquakes (83% for house claims), higher than the industry average and a measure of our determination to help our customers move forward and rebuild their lives.



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Our aim has always been to treat our customers fairly and respectfully and to settle claims as quickly as possible in an open and honest way. To date we have received claims covering 10,783 properties.

Chief Financial Officer Michael Boggs, who leads our earthquake recovery programme, says TOWER is pleased with the progress it is making in resolving claims. "The 86% milestone demonstrates that we remain on track to substantially complete claims settlement by the end of 2015," he says.

The progress in settling claims is also demonstrated by the Reserve Bank of New Zealand's decision to allow TOWER to release \$30 million from the \$80 million reserve required to meet our Minimum

Solvency Margin during the earthquake rebuild. This will add to TOWER's already strong capital position and reflects the reduction in risk to the business from the settling of most claims.

TOWER's programme of repairing and rebuilding work in the Canterbury region has gained pace this year, with a significant number of "over-cap" repairs and rebuilds either completed or in progress. TOWER's out-of-scope claims, or minor repairs, are expected to be substantially completed this year.

David Ashe, Manager – Earthquake Recovery, says the rebuilding process has been complex. While often the superstructure of a house remains in good condition, the foundations have failed. In some cases we are lifting

houses 2.5 metres off the ground to enable repairs to the foundations. In other cases, piles need to be driven up to 10 metres into the ground to stabilise the soil underneath. "I think there's been some innovative ways of approaching things that haven't been done before for residential properties," he says.

You can see an example of a house undergoing foundation repairs in this time lapse video



David says the most important task for TOWER is to allow customers to feel that they can start to move on with their lives, whether they choose to rebuild or take a cash settlement. "It's really about giving them options," he says.

Rebuilding the lives of people affected by the disaster and repairing the local economy will take much longer.

"The commercial area and CBD area in particular have got a long way to go," David says. "But when it's done I think that's probably going to make the city feel it's properly back on its feet."

Customer status as at August 2014 for house claims

	REBUILDS	MAJOR REPAIRS	MINOR REPAIRS	TOTALS
Cash settled/completed	66%	50%	92%	83%
Underway	24%	43%	2%	10%
In progress	10%	7%	6%	7%

(Excludes temporary accommodation and other house claims)

In the red zone

Pat Miller's story

Pat Miller's experience typifies that of thousands of Christchurch residents shaken from their foundations by the earthquakes. Her contented life was centred around her "lovely" double storey Art Deco home on the banks of the Avon River.

Having now bought a house on the other side of town she acknowledges she is more fortunate than many, but still misses the life she had by the river.

"I miss the eastern suburbs and I miss my garden," Pat says.

Like many she endured the emotional rollercoaster of 2010 and 2011, when the continual aftershocks turned what

might have been a salvageable home after the first quake into an irreparable property sitting on ground that was no longer safe to build on.

The February 2011 earthquake was the deciding blow, when the house split and slid half a metre towards the river. Where there was lateral spreading, the fence line split a full metre.

Pat says that while the financial side of rebuilding her life has not always been smooth sailing, she appreciates that her TOWER case manager has regularly kept in contact since her claim was resolved to see how she is faring. "That courtesy has made a big difference," she says.



Pat Miller

Smarter Drivers insure with TOWER

An accident on a lonely country road is no longer a confronting prospect for a driver with a TOWER Motor Policy and a Smartphone. A trademarked Smartphone app, Claim4Car™, gives the unlucky driver complete control of the process, providing an immediate link to roadside assistance, and ensuring that a claim can be lodged immediately online (supported by location details and photos via the Smartphone's GPS).

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“Our customers really appreciate this level of value-added service,” says Mark Savage, TOWER’s General Manager Customer Proposition.

TOWER’s motor insurance business, led by Mark, who has been with TOWER since 2007, is largely within the New Zealand private vehicle market, complemented by a smaller commercial vehicle insurance business.

“Motor insurance globally is evolving rapidly and, increasingly, is tailored to individual needs. Successful motor insurers are those who recognise that the sale of a policy is only the starting point of a relationship with customers,” says Mark.



“A recent major innovation in motor insurance worldwide has been the development of User-Based Insurance (UBI), supported by dramatic advances in telematics, the technology that enables driving data to be gathered and transmitted directly to the insurer from a vehicle on the road.

“Telematics is proving very popular around the world and continues to connect insurers with the big global trends around emerging technology and big data.”



TOWER SmartDriver

SmartDriver™ forging ahead

TOWER has a publicly-stated goal to make driving safer for all New Zealanders. This commitment took practical form in April this year with the launch of our free Smartphone app SmartDriver, supported by telematics technology. Now TOWER motor insurance customers can benefit from lower premiums based on their individual driving performance. To date, SmartDriver is proving to be very popular.

SmartDriver monitors and assesses an individual’s driving behavior based on a set distance travelled. Drivers who score well can then qualify for a discount of up to 20% on motor premiums.



“SmartDriver, which is available free from the Apple App Store or Google Play, has been made possible only because of the information on personal driving behaviour now available via telematics,” says Mark. “More than 60% of Kiwis now own a Smartphone and SmartDriver is available to all New Zealand motorists, regardless of whether they are TOWER customers.

“By collecting basic driving information such as trip duration, distance travelled, location, braking and acceleration we can build up a reliable picture of driving behaviours so as to price premium rates very precisely and to price risk very accurately. Safer drivers lead to a better claims ratio but it is important to note we do not ‘load’ premiums to the disadvantage of drivers with poorer driving records,” Mark added.

Mark makes the point that TOWER’s size allows it to be nimbler and more innovative than the larger motor insurers. “We are really confident in the direction that SmartDriver is moving us and we have other plans afoot to grow the business further and bring new offers to market using the data platform that SmartDriver provides.”

smartdriver.tower.co.nz

Supporting New Zealanders and the Pacific Region since 1869

If longevity is any guide to financial strength, then TOWER's platform – given its origins date back to 1869 – is surely impressive.

1800s

- 1869 Government Life Insurance Office established
- 1873 National Insurance Company of New Zealand established
- 1874 Fiji market entered

1900s

- 1953 Government Life becomes a separate statutory body
- 1997 Samoa and American Samoa markets entered
- 1980 Papua New Guinea, Solomon Islands, Tonga and Cook Islands markets entered
- 1987 Renamed TOWER Corporation
- 1990 Ownership passes to policyholders
- 1999 TOWER demutualised and listed

2000s

- 2005 Divests Australian Wealth Management (Bridges & TOWER Trust Aust.)
- 2006 Separates TOWER Australia Limited (TAL)
- 2009-11 Opens branches in Dunedin, Christchurch and Rotorua
- 2012 Sells TOWER Medical Insurance Limited
- 2013 Sells TOWER Managed Funds Limited
- 2014 Sells TOWER Life (NZ) Limited

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Pacific business snapshot

TOWER's Pacific Region business, which contributes around 18% of Gross Written Premium and delivered 21% of the Company's HY14 NPAT, continues to record healthy growth, especially in Papua New Guinea, Fiji and the Solomon Islands.

The Company has smaller but thriving businesses in the Cook Islands, Samoa, American Samoa and Tonga – and is considering further expansion into Vanuatu and Timor L'Este. Market shares across the Region range from 15% to 85%.

"The foundation of TOWER's Pacific business is small to medium enterprise business insurance," says Michael Boggs, Chief Financial Officer. "We insure thousands of small traders, their businesses, shops and homes. We also have a healthy motor insurance business."

"The success of TOWER's Pacific business depends, in part, on the commitment of key employees," said Michael, paying tribute to Paul Absell, General Manager in Fiji, who retires in November after 34 years

with TOWER, 31 in TOWER's Pacific markets.

"We have been operating in the Pacific Region for 140 years", says Michael, "but our best years lie ahead. Major investments such as the recently built LNG project in PNG offer significant opportunities to build productive and value-creating alliances with business partners."

Small shareholder buyback scheme update

Most listed companies end up with a number of shareholders on their register who hold very few shares. This is also true for TOWER Limited.

Disposing of small parcels can incur brokerage or other fees so that the net financial result is not deemed worthwhile by many shareholders.

To help small parcel shareholder dispose of their shares, TOWER Limited announced a small shareholder buyback scheme on 27 May 2014.

This buyback scheme closed on 12 September 2014 with 2,395,681 ordinary shares bought back at \$1.72 per share. Following the buyback and the cancellation of these shares, TOWER Limited now has 175,749,449 shares on issue and it has also resulted in the total number of shareholders reducing by 19,193 to 29,718. This will result in cost savings and greater efficiency in maintaining our share register.

Shareholder calendar

- 17 September 2014
Payment date for small shareholder buyback
- 30 September 2014
Financial year balance date
- 27 November 2014
Full year financial results announced
- 11 February 2015
Annual Shareholders' Meeting

Contact us

We would like to hear from you if you have feedback on our newsletter, suggestions for future news items or would like to be added to our mailing list. Please contact Julia Belk, TOWER's Head of Capital and Investor Relations on +64 9 925 0034 or e-mail: investor.relations@tower.co.nz

