Tower HY25 Results Announcement Investor Presentation Script

Slide 1 – 2025 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 2025 half year results.

Slide 2 - Agenda
With me in Auckland is our Interim Chief Executive Officer, Paul Johnston, and Interim Chief Financial Officer, Angus Shelton, who will take you through the results and answer your questions.

Slide 3 – Chairman's update
Tower's half year 2025 results demonstrate a business in good heart and performing strongly. A razor-sharp focus on profitable growth and operational excellence is creating value for our shareholders and will continue to do so.

Earlier this year, we delivered a capital return of $45 million that was value accretive, while today we are declaring a fully imputed half-year dividend of 8 cents per share, reflecting our strong financial performance and commitment to rewarding our shareholders.

There is no question that Tower is a more focused, efficient and profitable business. We are increasingly growing the right risks through risk-based pricing and enhanced underwriting capability, while we also make the strategic investments necessary to improve efficiency and further strengthen the business.

And, our capital and solvency position remains strong.

Indeed, the findings from the recent RBNZ stress test reinforce this view, indicating that Tower, along with other New Zealand private insurers, is prepared and capable of meeting all policyholder claims and obligations in the event of a catastrophe much larger than any previously experienced.

However, the stress test findings are not positive for the Government, as it will bear a disproportionate share of the costs in future catastrophes. I believe this burden underscores the critical importance of New Zealand having a well-functioning private insurance market. It's essential that this market is attractive to global reinsurers, which means we must manage New Zealand's hazard risks effectively.

[pause]

With all this in mind, I did not think that almost 15 years later we would still be making provisions for the Canterbury earthquakes. You will see we have charged $6.2m after tax in the half year and received a further 15 new or reopened claims.

Not only is the never-ending tail of Canterbury earthquake claims imposing huge costs on the Government and insurers, customers are getting a raw deal.

[pause]

Tower has a positive relationship with the National Hazards Commission, formerly the EQC. The current operating model whereby private insurers manage the claim end-to-end is working well for customers. Claims relating to the Kaikoura earthquake and the 2023 catastrophe events were settled quickly and with relatively few complaints.

But the Canterbury earthquakes remain an albatross, as the EQC Act did not set a time limit for reopening historic claims, and claims continue to be reopened. There is no knowing how long a claim will take to be managed by NHC which is responsible for paying the first $100,000 of each Canterbury earthquakes claim, before it becomes a private insurers' responsibility.

To put it in perspective, as it stands, a Canterbury earthquake claim transferred from the NHC today could still have years to run before the final costs are known.

More importantly, the current situation may also prevent NHC from restoring capital levels, leaving it more vulnerable to the next big event. From a customer perspective, this is an intergenerational equity issue where today's policyholders are continuing to pay for Canterbury earthquake claim costs.

In our view, the government must legislate to impose final time limits. This is critical, to provide certainty for all parties and to bring about closure to an event that happened nearly 15 years ago.

It's also about putting a stop to the peripheral industry that has created a self-perpetuating gravy train. For example, lawyers and advocates prolonging disputes, while contractors actively seek to find damage in the hope of pinning it to the earthquake and getting more work. This practice is egregious. The Government - and ultimately the taxpayer – bears a substantial financial burden and these additional costs put unnecessary pressure on premiums to the detriment of customers.

As a society, this will require us to have some difficult conversations. No one – least of all me – wishes further harm to those who were affected by these tragic earthquakes and continue to discover damage or are faced with shoddy repairs. It won't be easy, but as a nation, we need to find a way to balance the ongoing needs of those with historical claims with the needs of future claimants.

[pause]

As the RBNZ report highlighted, the Government, via NHC is already paying a high proportion of New Zealand's natural hazard costs, which it can ill-afford. Therefore, Tower is actively encouraging the Government to reconsider Treasury's proposed increase to the NHC cap to avoid the Government taking on even more of New Zealand's natural hazard risk and other unintended consequences.

Because the levy is applied uniformly, an increased NHC cap would lead to higher insurance costs for everyone, but those who will suffer the most are lower income homeowners.

We also urge caution against implementing a proposed 50% increase in the NHC levy. Taxes and levies already make up a significant portion of customer premiums and for Tower could rise to 56% of an average premium under the current proposals.

In short, the net result of the proposed NHC levy increase would significantly undermine Tower's efforts to implement fair, risk-based pricing by sending the wrong price signals. It would be a direct slap in the face for homeowners who live in less hazard-prone areas.

For the avoidance of doubt, Tower believes in – and will continue to advocate loudly for – risk-based pricing.

[pause]

Global reinsurers expect insurers to manage and price for risks appropriately. We must avoid the situation we have witnessed in California and Florida where insurers have withdrawn, and the state governments have been left with a huge fiscal risk.

We firmly believe the Government's role should be to prioritise risk reduction in hazard-prone communities rather than taking on more financial risk. By doing so, it will help keep insurance affordable for New Zealanders.

[pause]

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

Paul Johnston

Slide 4 – Business update

Kia ora, and good morning, everyone.

Thank you for joining us for our 2025 half year results.

Slide 5 – HY25 results summary

Here is a summary of our half year results, which demonstrate Tower's strong performance.

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 2025 increased to $297 million, up 4% on HY24, excluding divested portfolios.

Customer numbers increased to 312,000 compared with 309,000 in HY24. This growth was predominantly driven by growth in the New Zealand home and contents insurance portfolio.

The BAU claims ratio has improved substantially to 38% due to a range of factors including the prolonged period of favourable weather, easing inflation, enhanced risk selection and more efficient claims processes.

The management expense ratio has improved year-on-year, reducing to 30.4% due to GWP growth and operational efficiencies, partially offset by increased investment in digital and process initiatives this year.

Large events costs at the half year were $3m due to the Dunedin flooding event in October 2024. The April 2025 Cyclone Tam flooding event in New Zealand will be recorded as a large event in the second half with an estimated cost of $4m.

Reflecting our positive operational and business performance we are reporting an underlying profit after tax of $61.7m, up from $36.6m in HY24.

Reported HY25 profit is $49.7m compared to $36m in HY24.

On the basis of these results Tower will pay an interim dividend of 8 cents per share. This dividend will be fully imputed.

Slide 7 – Improved risk selection delivers profitable growth

Premium growth continued at a slower rate in the year to 31 March, increasing by 4%. This is because of a reduction in average premiums due to attracting a higher proportion of lower-risk house insurance and motor policies, which attract lower pricing, along with more competitive pricing in the New Zealand market.

Our strategy has been to focus on growing high-quality risks in the home insurance market - we know that home insurance customers have more policies, and stay longer than solely motor insurance customers. So, we are pleased to see our premium growth was predominantly driven by customer growth within the New Zealand home and contents insurance portfolio. Ninety per cent of our house insurance GWP growth came from volume.

As you can see in the bottom graph, growth in motor risks has slowed following actions to tighten our risk appetite in the prior year. We will continue to target high quality risks by offering more favourable pricing to lower risk vehicles and applying higher premiums to those that our data shows will potentially incur higher claims costs.

Pleasingly our Partnerships business passed a milestone this half year of $100m in GWP from active partners, on a 12-month rolling basis.

In line with our risk-based pricing strategy, growth from new policies sold in HY25 has significantly improved our risk exposure. At the end of HY25 91% of house policies were rated by Tower as low or very low for flood risk, a 5% improvement from HY24.

This has contributed to our expected average annual loss from flooding reducing by 24% on a per policy basis, and by 18% for the portfolio overall.

Slide 8 – Digital strategy drives better customer experience

Our focus on customer experience combined with our use of digital technology and data has contributed to continued improvements in our overall net promoter score, which was plus 41 at HY25, up from plus 31 in HY24.

Customer experience improvements have been seen across both our digital and our contact centre agent assisted customer journeys. Customers can now complete 94% of policy changes for their car insurance online. This includes features such as the ability to change the policy excess, update the sum insured and renew or cancel the policy, all without needing to make a phone call.

The number of active My Tower users continues to increase, rising by 10% to 171,000, demonstrating that our online journeys resonate with customers.

We're continuing to see the benefits of our core platform and our 300-strong Suva hub team, which have contributed to further reducing our sales and service and claims contact centre abandonment rates, now down to 7% and 11% respectively.

We have implemented our fair conduct programme, in response to the Conduct of Financial Institutions amendment to the Financial Markets Conduct Act. The programme sets out policies and processes to further advance fair customer outcomes, while delivering on our promise of simple and rewarding customer experiences.

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

Slide 9 – Reducing MER through scale and efficiency

We are pleased to have achieved a further reduction in MER to 30.4% in HY25. This includes increased investments for strategic initiatives which I'll cover in the next slide.

Our Suva hub is continuing to deliver efficiency benefits. In HY25 our Suva team handled 73% of all New Zealand sales and service calls to Tower; an increase from 50% in HY24.

Slide 10 - Strategic investments to enhance business performance

In HY25 we leveraged the low claims cost environment and accelerated strategic investments to enhance our business performance.

Continuing our digitisation strategy, we are targeting to have 80% of all New Zealand sales, service, and claim lodgement tasks completed digitally by the end of FY27.

We're also rolling out a new motor assessing system to cut down assessment times and reduce repair costs, and we plan to implement a new house assessing system in 2025.

A new contact centre platform to improve frontline efficiency and customer service, will be implemented this year.

And, as we have previously signalled, we are expanding our risk-based pricing programme to include two additional hazards - landslide and sea surge risks – which will be applied to both existing policy renewals and new policies.

Importantly, as we do with earthquake and inland flooding risks, we will be sharing information transparently with customers to help people understand the landslip and sea surge risks their homes face, and how this impacts their insurance pricing.

We are also investing in our customer data capabilities to enable better end-to-end data management, helping us serve our customers more accurately and effectively.

Lastly, we're investing in our team's capabilities and leadership to ensure our people are well set up for the future and continue delivering great customer experiences.

Slide 11 – BAU claims ratio below historical levels

In HY25 our BAU claims ratio significantly improved from 50% in HY24 to 38%, thanks to a combination of a prolonged period of favourable weather, easing inflation, fewer total loss house claims, improved claims processes and enhanced risk selection.

Prior period rating increases implemented to offset inflation and increased reinsurance costs are also continuing to earn through to the loss ratio.

As I noted earlier, our improved risk selection across our motor portfolio has helped reduce claims from higher risk policies.

Tower's investment in our Claims Transformation programme aimed at improving processes and implementing new technology to deliver faster and more efficient claims management, is delivering benefits. In the half we increased the proportion of claims assessments performed in-house by 4%, and significantly improved use of our preferred repair network to 70%, up from 47% in the first half of 2024.

These improvements are helping to reduce claims costs and shorten repair times.

Slide 12 – Consistent improvement in underlying performance

Underlying NPAT excluding large events was $64m in HY25.

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

These positive first half results reflect Tower's commitment to delivering sustainable, profitable growth by upholding core insurance fundamentals: robust risk selection and pricing and claims management.

We are focused on continuing to grow high quality risks while enhancing our resilience and claims performance.

Slide 13 - Financial performance title slide – Angus Shelton

I will now hand you over to our interim Chief Financial Officer, Angus Shelton who will talk you through the details of our financial performance this year.

Slide 14 – Group underlying financial performance

Thank you, Paul.

Looking at the consolidated results, we can see that GWP has increased by $6.4m, or 4% - excluding divested portfolios - compared to HY24. This growth was driven by customer growth in the New Zealand home and contents insurance portfolio which grew GWP by 11% year-on-year.

The continued benign weather, alongside rating and underwriting actions have significantly improved the BAU claims ratio to 38.1%.

Tower's large events costs at the half year were $3m due to the Dunedin flooding event in October 2024.

The MER improved to 30.4%.

We are reporting an underlying NPAT including large events of $61.7m up from $36.6m, and reported profit after tax of $49.7m, up from $36m in HY24.Reported profit includes provision for additional costs of customer remediation-related costs and an increase in Canterbury earthquake cost estimates, due to an increase in the number of new or reopened claims received from the NHC.

Slide 15 – Movement in underlying NPAT

Here is the bridge between underlying NPAT in HY24 of $36.6m and underlying NPAT of $61.7m in HY25.

You can see that business growth, driven by higher net earned premium, alongside significant improvements to BAU claims performance, have largely driven this result.

Partly offsetting those items were a $3.6m change in large events costs (versus the release of $1.9m before tax in provisions in HY24) and an additional $2.8m, after tax, of strategic investments aimed at growth, efficiency and strengthening the business, which Paul covered earlier.

Slide 16 – Lower frequency and severity of claims

The significant reduction in our BAU claims ratio to 38.1% was driven by lower frequency and severity (or cost) of claims.

As shown in the top graph, both the frequency and severity of motor claims has reduced year-on-year - this is partly due to our actions to reduce our exposure to high-theft motor policies in the past year to 18-months.

The lower inflationary environment, coupled with efficiency initiatives in our claims processes - such as reducing our reliance on external assessors - has lowered the average severity of motor claims by $32 to $3,179 per claim. Additionally, the frequency of motor claims has reduced to 12.1% of policies experiencing a claim in the year.

Our efforts to attract lower-risk properties, plus continued mild weather in the period, have contributed to a reduction in house claim frequency over the past two years, from 6.9% in HY24 to 6.5% of policies experiencing a claim in HY25.

The severity of house insurance claims has also reduced in line with inflation and our improved risk exposure.

We experienced one large event in the half – the Dunedin flooding event in October 2024, with an estimated cost of around $3m. The Cyclone Tam flooding event that occurred over Easter will be recorded as a large event in the second half with an estimated cost of $4m and is therefore not included in HY25 results.

Slide 17 – Continued improvement in management expense ratio

We are pleased to see our management expense ratio continue to reduce with a 0.9% improvement over the year to 30.4%.

Our increased scale from business growth enabled a 3% reduction in MER.

We are leveraging the low claims cost environment to accelerate strategic investments aimed at improving growth, efficiency and strengthening the business, which accounted for a 1.5% increase in the half.

Net commission and deferred acquisition costs led to a 0.3% increase.

Staff and other costs increased by 0.2%, noting that these costs are increasing below the rate of inflation due to cost efficiencies from digitisation and the Suva hub.

Slide 18 – Conservative investment strategy

In HY25 net investment income was $10m before tax, which was in line with the same period last year.

Tower maintains a conservative investment policy with a focus on high credit quality and liquidity, 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. This allowed us to benefit from higher interest rates through FY24, however the running yield on the core investment portfolio has since continued to decrease across HY25, finishing the half year at 3.9%.

Interest rates are now well past their peak, and we expect yields to continue decreasing through FY25.

Slide 19 – Canterbury earthquake & customer remediation

The two primary non-underlying items included in the reported profit were an increase in Canterbury earthquake cost estimates, due to Tower continuing to receive more new overcap or reopened claims than expected from the NHC, and costs associated with customer remediations.

We are continuing to settle Canterbury claims, with 13 closed over the half-year. However, we also received an additional 15 new overcap or reopened claims from NHC in the half, bringing the total number of open claims to 18 on 31 March. As a result, there was a net increase of 2 open claims from September 2024.

As these 15 claims reflect a higher rate than we have seen in recent times, we have increased our outstanding claims provision to allow for the possibility of a greater number of new or re-opened claims in the future than we had previously expected. As a result, HY25 has seen an adverse Canterbury earthquake P&L charge of $6.2m after tax, recorded in non-underlying items.

We continue to closely manage outstanding claims, with our specialist team working to finalise them as efficiently as possible.

We are also working closely with the NHC to look further back into their pipeline, to identify earlier when claims may exceed the $100K cap and be passed on to us. Claims can exceed the cap due to building cost inflation increasing the ultimate cost of the claim or missed damage.

In HY25, we incurred a charge of $4.9 million after tax, as a non-underlying item, related to customer remediations. This charge includes further provisions for repayments to customers, as well as the costs associated with our remediation programme.

Tower has previously provided for costs related to regulatory action taken by the FMA concerning the incorrect application of multi-policy discounts, which is ongoing.

Slide 20 – Reinsurance programme

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

As we highlighted in September Tower's reinsurance programme provides comprehensive cover for our home, motor, boat and commercial portfolios across our New Zealand and Pacific markets.

Slide 21 - Capital and solvency position

Tower's capital and solvency position remain strong.

Our parent solvency ratio has decreased to 164%, from 212% in FY24, due to the capital return and changes in the way we are required to calculate solvency.

Tower's regulatory solvency position is calculated under the second amendment to the Reserve Bank of New Zealand's Interim Solvency Standard, which applied from 1st March 2025.

As we have previously forewarned, the second amendment has resulted in some significant changes to the solvency calculation and, largely as a result of these changes, the prescribed capital requirement has increased to $190.9m.This movement, combined with the return of $45m excess capital to shareholders in March and allowance for an 8 cents per share interim dividend which will be paid in June, offset by profits earned in the half, means that the adjusted solvency margin has fallen to $122.9m, a decrease of $48.5m from $171.4m.

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

Slide 22 – Looking forward

Thank you. I will now hand back to Paul who will provide an update on our guidance and priorities for the second half.

Paul Johnston

Thank you, Angus.

Slide 22 – Second half priorities

Here are our priorities for FY25 which are centred on strengthening the business through core insurance fundamentals, including robust risk selection and pricing, and improved claims management. Investing in our business will also remain a key focus.

We will continue to increase new business from home insurance policy sales by targeting high quality risks. At the same time, we are committed to growing our motor book as our pricing becomes more attractive for lower risk vehicles.

Additionally, we plan to expand through existing and new partnerships, including Kiwibank, homes.co.nz and HealthCare Plus, who joined us in FY24.

Investing in simple and rewarding customer experiences remains a priority. This includes applying landslide and sea surge risk ratings to policy renewals and adding these perils to our automated customer-facing quote-to-buy tool, where customers can already see their home's risk ratings for earthquake and flood hazards.

This year, we are investing in our customer data capabilities to enable better end-to-end customer data management. This will further enhance our customer experience, increase efficiency and reduce risk by being a single source of the truth.

Importantly, we will continue to pursue efficiency, digitisation, and process improvements that deliver benefits to our customers and drive value for our shareholders.

As we examine and improve our systems and processes, we are committed to addressing the root causes and applying lessons from the errors that led to customer remediations.

Our second half priorities aim to continually enhance our customer experience, positioning us to deliver sustainable premium growth and attractive long-term shareholder returns.

Slide 23 – FY25 guidance and future targets

In FY25 Tower expects GWP growth - excluding revenue from sales of subsidiary operations - to be mid-single digit.

We have set a prudent large events allowance of $50m and anticipate further improvements to our management expense ratio which we expect will be less than 31%.

We are targeting a combined operating ratio of between 82% and 84%.

Assuming full utilisation of the $50m large events allowance, Tower anticipates underlying NPAT to be between $70m and $80m. Any unused portion of the large events allowance (after tax) at year end will increase underlying NPAT to improve the full year result.

Additionally, we are targeting a return on equity of between 13% and 17%.

You can see we have also disclosed a range of medium-term targets for FY27. We are expecting to build back up to our targeted GWP growth of 10%-15% in FY27 as the insurance cycle stabilises and strategic initiatives are delivered. However, due to the carried forward impact of lower growth in FY25, we expect our MER to now be between 26% and 28% in FY27.

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