Tower FY24 Results Announcement Investor Presentation Script

Slide 1 – 2024 Full 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 full 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

The 2024 financial year has been a strong one for Tower. Following an extremely challenging previous year, it is particularly pleasing to be recording underlying net profit after tax of $83.5m and reported profit of $74.3m.

Delivering shareholder value

These results have been hard won. While significantly aided by the absence of large events in the period, more importantly the business has achieved year-on-year improvements in business as usual claims, premium growth and operational and digital efficiencies. These are the measures that ensure Tower remains well positioned to deliver value to shareholders.

I am pleased to announce that we have declared a final dividend of 6.5 cents per share. This brings our total dividends for the fiscal year to 9.5 cents per share.

And, while still subject to high court approval and shareholder vote at the Tower Annual Shareholder Meeting on 11 February, the Board has also approved a return of $45 million of excess capital by way of a scheme of arrangement. This capital return is expected to deliver meaningful earnings per share accretion, further demonstrating our commitment to returning value to our shareholders.

Tower has entered the NZX50 portfolio index, a significant milestone that recognises our company's growth and stability. This achievement is a testament to our strategic initiatives, which have led to improvements in customer experience and overall business performance.

Tower is well positioned

We are acutely aware that the current, sustained economic downturn is affecting almost everyone, including many of our customers. Ensuring insurance remains affordable and premiums stabilise is a priority. Blair will talk about how Tower began moderating premium increases – particularly for low-risk assets – as inflation settled in the second half. Those efforts are continuing to ensure Tower can remain competitive and profitable, while providing good value and a great customer experience.

Tower's competitive positioning has for some time been underpinned by risk-based pricing. We continue to believe that this is the fairest way to address both affordability and the impacts of climate change, ensuring that our pricing models are transparent, sustainable and equitable.

By setting premiums that reflect actual environmental risks, we are incentivising our communities and policyholders to adopt sustainable practices and invest in resilience measures.

This approach helps to reduce overall risk and financial burden but importantly, promotes fairness and encourages community-wide preparedness and adaptation.

And, from a cost perspective our customers who take proactive steps to mitigate risks are rewarded with lower premiums, while those with higher risks pay accordingly. This differentiation encourages responsible behaviour and brings transparency to our pricing structure, allowing customers to see a direct correlation between their actions and their insurance costs.

By doing so, we foster a more equitable and resilient market, ultimately driving our company's success and sustainability in the long run.

[pause]

In closing, I'd like to thank the Tower team. It's a very good result – we're paying a dividend, the business remains strong and well capitalised, and has achieved sustained premium growth. None of this would be possible without the vision, dedication and commitment of our people.

As you will be aware, Blair is stepping down as CEO in February after the ASM. The Board joins me in thanking him for the strong contribution he has made to Tower during his tenure.

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, and good morning, everyone.

Thank you for joining us for our 2024 financial results.

And thank you Michael for those kind words.

Slide 5 - Results summary

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

Sustained GWP growth and enhanced business efficiencies, continued improvements in claims performance along with unusually benign weather in New Zealand and the Pacific, have delivered a positive result for shareholders.

This strong result is underpinned by our strategy of delivering simple and rewarding customer experiences combined with our use of digital technology and data.

It has been enabled by the more than $150m we've invested in the past five years in digitisation and data, operational capability such as our Suva hub and streamlining our business. Investments that are now supporting growth and efficiency and continuing to build our business resilience.

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 year to 30 September 2024 increased to $595 million, up 15% on FY23, 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 by 2% to 305,000, partly due to our tightened risk appetite for high-theft motor vehicle models. Tower reduced high-risk motor policies by 5,000 in the year.

We expect to see growth in customer numbers in FY25, as we target higher quality risks, enabled in part, by our risk-based pricing capability to target customers with lower risks.

Rating increases, enhanced processes, a reduction in motor theft claims due to targeted underwriting actions and lower crime, as well as calmer weather in comparison to prior years have led to an improvement in the BAU claims ratio to 48%.

We are pleased to see our management expense ratio improve to 31.4%, thanks to our GWP growth combined with disciplined cost control and improved efficiencies from investments in digitisation and streamlining the business.

Tower experienced no large events incurred during the financial year, which is rare. Looking back over the past 20 years, there have only been two years where no large events costs have been incurred.

Large event costs for FY24 were negative $2.3 million, due to the absence of large events and a favourable revision of prior year large event costs. This is a reduction from $55.6m of large event costs in FY23.

Reflecting our positive operational and business performance we are reporting an underlying profit after tax of $83.5m, up from $7.1m in FY23.

Reported FY24 profit is $74.3m compared to a loss of $1m in FY23.

On the basis of these results Tower will pay a full year dividend of 6.5 cents per share, bringing the total FY24 dividend to 9.5 cents per share.

Slide 7 – Continued premium growth

Premium growth continued in FY24, increasing 15%.

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 GWP growth in the year.

In FY24 we were particularly pleased to see our proportion of house policies increase as we focused more on the home insurance market. Nearly a third of our house insurance GWP growth came from volume.

In line with risk-based pricing, 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. In FY24 this approach, led to a reduction of motor policies while GWP from our motor portfolio grew by 13%.

Tower’s adoption of risk-based pricing and underwriting continues to give us a competitive advantage by enabling more accurate risk selection and pricing. At the end of FY24 91% of house policies rated low or very low for flood risk, a 1% improvement from FY23.

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.

As we signaled at the half year, we began to moderate premium increases, particularly for low-risk assets, in the second half of FY24 as inflation began to settle.

Our retention rate for our New Zealand risk portfolio remains stable at 77% with just over half of our customers holding multiple policies with us.

To help our customers manage their insurance and affordability, we introduced Ways to Save, a My Tower feature for our New Zealand customers that offers useful tips and options to reduce premiums.

In FY24, 29,000 customers used Ways to Save, with 16% of them making changes to their cover that resulted in lower premiums. On average, those who adjusted their premiums through Ways to Save in the year saved $122.

A range of factors have influenced premium increases over recent years including inflation, crime rates, weather events, reinsurance costs, and supply chain pressures. While it costs more now to cover our customers’ assets, we continue to manage these impacts through risk-based pricing, and business efficiencies, which we cover later in this presentation.

Slide 8 – Customer experience improves

Our focus on customer experience combined with our use of digital technology and data has increased our overall net promoter score to plus 38, up from plus 28 in FY23.

Customer experience improvements have been seen across both our digital and our contact centre agent assisted customer journeys.

In FY24 in New Zealand, 63% of sales tasks, 45% of service tasks and 64% of claims tasks were completed digitally.

And active My Tower users increased by 5% to 164,000, demonstrating that our online journeys continue to resonate with customers.

The benefits of our core platform (now live across the Tower group) and our 300-strong Suva Hub team continue to be realised, contributing to a pleasing reduction in our sales and service contact centre abandonment rate, now at 8%.

We were pleased to win the first place Supreme Award for Customer Retention in the New Zealand CRM Contact Centre Awards.

This year Canstar also 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 Canstar stated, feature comprehensive insurance cover at affordable prices.

An important part of delivering a positive customer experience is fixing things when we don't get them right. We have made significant progress in remediating customers identified as being owed a premium refund, due to errors in applying our multi-policy discount.

We have identified multi-policy discount refunds of around $12 million (including GST and interest) owed to 66,000 customers and had repaid $11.5m by 31 October.

While addressing outstanding remediations, we are also identifying and developing strategies to tackle the root causes of these incidents. This approach aims to increase business resilience, support positive customer experiences and promote sustainable growth.

Slide 9 – Continued improvement in MER

We are pleased to have achieved a further reduction in MER to 31.4% in FY24, down from 32% in FY23.

It's clear that the $150m Tower has invested in the past five years is realising benefits in targeted growth and operational efficiency.

The expansion of our Suva hub has delivered well in this respect. In the year our Suva team answered 55% of all New Zealand sales and service calls to Tower; an increase from 16% in FY23.

In FY24 we completed the sales of our Solomon Islands business and Vanuatu subsidiary. Tower stopped offering commercial rural insurance in November 2023. The planned exit of existing customers at renewal will be completed at the end of January 2025.

Our commission ratio continues to improve, reducing to 1.5% in the year from 2.1% in FY23 partly due to legacy portfolio purchases and referral arrangements that have reduced total commission.

By decommissioning 71 virtual servers in the year and moving more of our services to the cloud, we have continued to streamline and modernise our technology delivery.

Slide 10 – BAU claims ratio significantly improves

In FY24 our BAU claims ratio has significantly improved from 55% in FY23 to 48.1%, thanks to effective pricing and underwriting, efficient claims management and external factors.

Targeted rating, across our house and motor portfolios have reduced claims from higher risk policies. General rating increases implemented to offset inflation and increased reinsurance costs are also continuing to earn through.

Tower's efforts to improve processes and implement new technology to deliver faster and more efficient claims management include a new digital motor assessing tool. Online motor and house claims are also now automatically being allocated to repairers.

Among others, these initiatives have seen the number of open BAU claims in New Zealand halve and claims turnaround times decrease by a third.

External factors have also played a part with calmer weather reducing the frequency of claims in New Zealand and the Pacific region. Motor vehicle crime also reduced in the year.

Slide 11 – Underlying business performance improving consistently

Underlying NPAT excluding large events was $81.9m in FY24.

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

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

Slide 12 - Financial performance title slide – Paul Johnston

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

Slide 13 – Group underlying financial performance

Thank you, Blair.

Looking at the consolidated results, we can see that GWP has increased by $68.5m, or 15% - excluding divested portfolios - compared to FY23. This growth was driven by an appropriate mix of rating and underwriting actions, alongside modest volume growth in the house portfolio.

Rating and underwriting actions have significantly improved the BAU claims ratio to 48.1%.

The absence of large weather events in the year, combined with a favourable release from the FY23 Vanuatu cyclones has contributed another $2.3m to the result.

Pleasingly, the MER improved to 31.4% as a result of expense efficiencies and scale.

Higher investment balances and yields have seen net investment income increase by $7.2m to $21.6m.

Underlying NPAT including large events is $83.5m up from $7.1m, reflecting Tower's resilience and agility following catastrophic weather events experienced in FY23.

Towers' FY24 reported profit after tax is $74.3m, up from a loss of $1m in FY23. Reported profit was impacted by an increase to customer remediation costs and a strengthening of the Canterbury Earthquake provision.

Slide 14 – Movement in underlying NPAT

Here is the bridge between underlying NPAT in FY23 of $7.1m and underlying NPAT of $83.5m in FY24.

You can see that calmer weather with no large event costs, business growth, improving BAU loss ratio, and higher investment income have driven this result.

Reported profit was impacted by a strengthening of the Canterbury Earthquake provision, an increase to customer remediation costs and provisions, and other non-underlying costs partially offset by the gain on the sale of the Solomon Islands business.

Slide 15 – BAU claims ratio reduced

Our BAU claims ratio has significantly improved to 48.1%, driven by Tower's prior period rating increases and efficient claims management. Additional external factors including inflation easing, lower crime and relatively benign weather have also contributed to this improvement.

As shown in these graphs, inflation has impacted the insurance industry in recent years, but it began to level off in late FY24. For example, the severity (or cost) of motor claims went up 4% in FY24, compared to 12% in FY23.

Our rating ability allows us to respond quickly to external factors. For our customers, as inflation began to stabilise later in the year, we implemented more moderate premium increases, particularly for low-risk assets.

This included a review of motor pricing performance for the 100 most common makes and models (including all years and specifications), representing 70% of Tower's motor portfolio. The review led to a reduction in premiums of varying levels for 71% of the models evaluated.

Risk-based pricing predominantly helps protect Tower from large events. However, we're also seeing it contribute to the improved BAU claims ratio. Each year, Tower pays out on claims for weather events that don't meet our $2m threshold for a large event, and these are reflected in BAU claims.

Our efforts to attract lower-risk properties have contributed to house frequency flattening in FY24 and severity increasing at a slower rate.

As previously mentioned, external factors, including calmer weather, have also played a role.

Slide 16 – Continued improvement in management expense ratio

We are pleased to see our management expense ratio continue to reduce with a 0.6% improvement over the year to 31.4%.

Increased scale from business growth and efficiencies enabled a 4.2% reduction in MER with a further 0.3% decrease in net commission expenses which was mainly driven by an increase in reinsurance profit share commission income.

A 0.4% increase in amortisation was due to prior year technology capital investments while continued spend on investments to deliver key strategic initiatives drove a 1.4% rise.

Staff and other costs increased by 2%, partly driven by inflation. This year-on-year increase also reflects the payment of staff incentives in FY24. These were not paid in FY23 due to the company missing nominated NPAT targets following the catastrophe events that year. This increase was partially offset by cost efficiencies.

Slide 17 – Higher investment returns

In FY24 net investment income increased to $21.6m before tax, this was $7.2m higher than the same period last year.

This increased income is due to a larger investment balance and high interest rates in FY24.

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 in the past. This allowed us to benefit from higher interest rates through FY23, and up to HY24, when the running yield on the core investment portfolio began to decrease, finishing the year at 4.9%.

The outlook is for interest rates to continue decreasing through FY25.

Slide 18 – Reinsurance programme

Tower’s reinsurance strategy shields against the volatility of major events, ensuring financial flexibility to support growth and robust solvency.

Our reinsurance arrangements for FY25 include catastrophe reinsurance of up to $800m for two events. This was increased from $750m in FY24 due to business growth. The excess for each event would be $18.8m.

We have also purchased coverage for a third event of up to $85m with a $20m excess.

Our FY25 retention limits and programme premium increases were mitigated by our three-year rolling contracts. And we were pleased to sign a significant multi-year contract with a global reinsurer that will help to mitigate future increases.

Tower’s FY25 large event allowance is $50m. Full utilisation of the large events allowance is assumed in our guidance for the year.

We have recorded one large event in FY25 so far - the Dunedin flooding event in October, which has an estimated cost of around $3m.

Slide 19 - Capital and solvency position

Our increased profits, along with the progress made in settling catastrophe event claims and collecting the recoveries from reinsurers this year, have further strengthened our solvency position. As a result, our parent solvency ratio has improved to 212%, compared to 139% in FY23.

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

We note that the RBNZ is consulting on a further amendment to the ISS, which is expected to be issued and effective this 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.

Accounting for the final dividend, we are now holding $171.4m above the regulatory minimum capital required for solvency. This is an increase from $79.8m as at 30 September 2023.

In accordance with the ISS, the planned capital return of $45m is not yet taken into account in the solvency position and is expected to be deducted from solvency in FY25.

We were pleased that the RBNZ reduced Tower's licence condition from $15m to $0 in the year and Tower's A- credit rating was reaffirmed by AM Best.

The Board has declared a final dividend of 6.5 cents per share, bringing total dividends for FY24 to 9.5 cents per share.

The Board has also conditionally approved a return of NZ$45m of excess capital to shareholders, by way of mandatory share buyback. These conditions are noted in our market announcement.

Slide 20 – Looking forward

Thank you. I will now hand back to Blair who will provide an update on our guidance and priorities for FY25.

Blair Turnbull

Thank you, Paul.

Slide 21 – Focus on customer experience and targeted growth

In the year ahead Tower will continue to invest in creating leading customer experiences, while targeting the right risks at the right price.

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.

We will continue our focus on increasing new business from home insurance policy sales by targeting high quality risks, and at the same time we expect our motor book to grow as our pricing becomes more attractive for lower risk vehicles.

And we will continue to grow through new partnerships including Kiwibank, homes.co.nz and HealthCare Plus who joined us in FY24.

In the coming year we are looking to further increase customer retention by improving our online policy renewal experience.

Through these initiatives and more, we are targeting annual underlying GWP growth of 10%-15% out to FY27.

Slide 22 – Continuous efficiency & process improvements

In FY25, we will continue to focus on delivering efficiency and process improvements.

We are aiming for 80% of all New Zealand service tasks to be completed via digital channels by the end of FY27, up from 45% in FY24.

Following the launch of our new motor assessing system in the year, we plan to launch a new house assessing system in FY25. This is all about continuing to drive down assessment times and repair costs.

We also intend to implement a new contact centre platform in FY25 designed to deliver greater frontline efficiencies and improved customer experience.

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 work to streamline the business continues with the New Zealand commercial rural portfolio due to complete migration from Tower in January, another step towards decommissioning our last legacy technology system in New Zealand.

This graph shows the journey Tower has taken to steadily improve our efficiency over the years. This work will continue with Tower targeting an MER of less than 26% in FY27.

Slide 23 – Fostering sustainability

Ultimately, we want to have a positive impact on people and the environment so we will continue to invest in initiatives and products that foster sustainability and future climate change resilience.

An important part of our business strategy is to build an effective and distinctive staff culture across our New Zealand and Pacific locations.

We're committed to making Tower an even better place to work, enabling us to attract and retain talented people and empower our teams to show up in the best way possible for our customers.

This slide shows some of our FY24 people-related metrics that we are proud of, and we are continually working to further improve. These highlight our staff engagement and gender pay equity scores and our people's growing participation in our community volunteering initiatives and our various cultural representation groups.

Last week we were particularly pleased to win the Excellence in Workplace Diversity, Equity & Inclusion award at the 2024 ANZIIF New Zealand Insurance Industry Awards.

You can read more about some of these achievements in our annual report released today alongside our results materials.

We also released our inaugural climate statement today. This covers in detail the climate change risks and opportunities we’ve identified, along with our strategic responses aimed at supporting a low-emissions and resilient future.

Innovation is key to our ongoing success. One cost-effective alternative to traditional insurance is parametric insurance, which we have now implemented in three Pacific nations. In FY24, we partnered with global insurtech, CelsiusPro, to offer this product on a digital platform.

Our goal is to reach 10,000 parametric insurance policies by the end of FY25.

Tower has set an absolute, science-aligned reduction target of 21% for our Scope 1 and 2 emissions by the end of the 2025 financial year, using FY20 as the base year. Our FY24 Scope 1 and 2 emissions show a 20% reduction on FY20 levels and a 9% reduction on FY23.

We continue to support education that addresses climate change and promotes a more equitable, resilient, and sustainable future by awarding five university scholarships in New Zealand and Fiji in FY24.

Slide 24 – FY25 guidance and future targets

In FY25 Tower expects GWP growth - excluding revenue from sales of subsidiary operations - of between 10% and 15%.

We have set a prudent large events allowance of $50m.

We expect further improvements to our management expense ratio which we anticipate will be less than 29%.

We are targeting a combined operating ratio of between 87% and 89%.

Assuming full utilisation of the $50m large events allowance Tower anticipates underlying NPAT to be between $50m and $60m.

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.

Slide 25 – FY25 priorities

Here are our priorities for FY25 which have a key focus on enhancing our customer experience.

We will continue to work through customer remediations and associated proceedings, while implementing the lessons learnt from these experiences. We are also focused on the Conduct of Financial Institutions (CoFI) regime which comes into force in March 2025, to further advance fair customer outcomes.

This year we are implementing a new end-to-end customer management solution to further enhance the customer experience, increase efficiency and reduce risk by being a single source of the truth.

And we will expand risk-based pricing and offer greater transparency of customers' landslip and sea surge risks.

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

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

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