Cover•More

GROUP LIMITED

ASX announcement

Cover-More Group finalises underwriting agreement with Great Lakes Australia

Sydney, 6 July 2016: Cover-More Group Limited (ASX:CVO), a specialist, integrated travel insurance provider, today confirmed a deed had been signed with Great Lakes Australia enacting the agreement announced on 16 June 2016.

The agreement provides for a move to underwriter payments based on generalised linear modelling (GLM), effective from 1 July 2016, and an option for Cover-More to appoint alternative underwriting partners who are able to align their growth ambitions with those of the group.

Cover-More said "This deed ensures stronger alignment between the manner in which we price our distribution contracts and the manner in which we pay Great Lakes Australia for the risk they are writing during the remaining term."

"Our GLM, which has been developed with data from more than 30 years of travel insurance history, is designed to reduce volatility by ensuring payment of underwriting premiums more closely reflects expected claims outcomes and provides greater alignment and certainty to our distribution and underwriting partners as well as investors."

"Cover-More has received strong interest from the market and is in advanced discussions with multiple potential global underwriting partners to enter into a GLM based arrangement at the same, or a very similar, target loss ratio."

"Once discussions have been finalised and a preferred partner has been chosen, we will transition to the new underwriter."

Notable features of the deed signed with Great Lakes Australia are as follows.

- The new term will run until 30 September 2017; however, Cover-More is able to give between three and six months' notice to terminate the current agreement with Great Lakes Australia on reaching an agreement with new underwriter partners.
- Ability for Cover-More to establish new underwriting relationships with alternative underwriters in Australia, New Zealand and the United Kingdom.
- The target loss ratio in the agreement remains unchanged.
- Cover-More has agreed to an interim arrangement with:
  - a profit share mechanism for non-catastrophe claims performance which is favourable to the target loss ratio; and
  - limited and capped participation for any non-catastrophe claims cost experience which is adverse to target loss ratio.

Cover-More expects to commence a relationship with a new underwriting partner effective no later than 1 January 2017. On that basis and under the terms of the deed, if the claims experience is either favourable or adverse to target loss ratio for policies written in H2 FY16 and H1 FY17, limited and capped adjustments to the underwriting payments to the underwriter may occur for policies written in H2 FY16 through to FY18 and policies written in H1 FY17 through to FY19, as claims fully develop. Based on current estimates, it is expected that the impact of any adjustments on Cover-More's EBITDA relating to policies sold in H2 FY16 will be $0 to -$0.7m across the aggregate period through to FY18.

ENDS

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