



31 August 2017

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## **BUSINESS PERFORMANCE UPDATE**

Tower Limited (NZX/ASX: TWR) advises that business performance for the four months ending 31 July 2017 remains in line with the company's half year update. With a strong focus on improving the underlying business, Tower continues to advance its strategic transformation with positive trends being seen in key strategic areas.

Information in this update is based on Tower's unaudited management accounts as at 31 July 2017. Tower's audited results for the financial year ending 30 September 2017 will be released in November 2017.

### **Positive performance trends**

Tower's dedication to improving and growing its digital offering has delivered substantial benefits and strong growth. Digital Gross Written Premium (GWP) has grown 392% to \$7.7 million through the Tower and TradeMe Insurance digital channels this financial year, to 31 July 2017.

Improvements in digital combined with new product offerings and a continued commitment to customer retention has seen Tower's total policy numbers increase by 2.9%, contributing to New Zealand Core GWP growth of 5.2% (excluding ANZ run-off). As at 31 July 2017, overall GWP growth across total New Zealand portfolio is up 3.6% against same period prior year.

Our continued disciplined approach to risk in the Pacific has seen some reduction in GWP in Papua New Guinea, however, this has been offset somewhat by growth in Vanuatu and Fiji.

Overall, GWP across the Tower Group is up 1.9% as at 31 July 2017, compared to the same period prior year.

Tower's concentration on management expense reduction has seen the prevailing downward trend continue for the four months ending 31 July 2017, with total management expenses \$4.3 million below same period prior year. Savings have been achieved through programmes that deliver sustainable and ongoing business benefits.

### **Setting it right for natural event claimants**

New Zealand's insurance industry has experienced one of the most severe natural disaster years in history. Looking back at the last 25 years of loss events in Tower's records, 2017 is the highest year of natural event losses, excluding the Canterbury quakes.

Tower's customers impacted by the Kaikoura earthquake can be confident that their claims will be finalised by the end of 2017 as a result of a focus on early intervention and effective claims management.

Tower's positive progress has seen 100% of Kaikoura contents claims finalised and 64% of overcap house claims closed. On behalf of EQC, Tower has closed 87% of EQC contents claims and 74% of EQC home claims that relate to Tower's Kaikoura customers.



Tower's efficient management of claims has reduced the after tax impact of the Kaikoura event by \$1.1 million from \$7.2 million to \$6.1 million.

With regard to the Edgecumbe floods, 78% of contents claims are now fully settled and 35% of house claims finalised. All remaining claims are either partially settled, or are comprised of houses currently under construction.

Tower's efficient claims management approach has reduced the after tax impact of claims associated to ex-Cyclone Debbie, and the resulting flooding in Edgecumbe, by \$1.5 million from \$3.6 million to \$2.1 million.

More recently, the financial impact of the two South Island winter storms in July will be no more than \$1.2 million after tax.

As reported by other industry players, New Zealand motor insurance is experiencing an increase in claims frequency, this is further exacerbated by various constraints in the repair industry driving average costs higher. These industry trends and other inflationary factors continue to negatively impact claims costs.

As at 31 July 2017, claims costs for the New Zealand business, excluding large loss events, are \$1.9 million higher than the prior year. This is partially offset by benign weather and less claims in the Pacific, resulting in total Tower Group claims costs only \$1.1 million higher than the prior year, excluding large loss events.

#### **Alliance partnership performance**

Tower continues to focus on enhancing the performance of its alliance partnerships. Optimisation of the TradeMe Insurance digital platform has contributed to a 150% increase in sales through this new channel, compared to the same period last year.

Tower advises that its alliance partner, Kiwibank, has entered an RFP process. Due to the fact that this process is currently underway, no further comment can be made at this time.

#### **Canterbury open claims reduction**

Tower continues to make progress closing Canterbury claims. In the four months to 31 July 2017, open claims reduced by 91, bringing the number of total outstanding claims to 383.

Deloitte, Tower's appointed actuary, completed its quarterly update review in July for the period ending 30 June 2017. Deloitte's review confirms Tower is progressing in line with expectations based on the prior half year review.

#### **New Chief Financial Officer**

Tower is pleased to announce the appointment of Jeff Wright as Chief Financial Officer. Jeff will join Tower on 18 September 2017 and has extensive insurance and financial services expertise. Jeff has previously worked as CFO at Territory Insurance Office, as well as holding other senior financial roles with Allianz and Suncorp in Australia.

#### **Update on transactions**

As previously advised, Tower's Board is supporting Vero's appeal of the New Zealand Commerce Commission decision to decline its application to acquire 100% of Tower shares. Tower also intends to file its own cross-appeal shortly.

Tower has reimbursed \$400,000 of Fairfax Financial Holdings' costs under the conditions of its discontinued scheme. Under the Fairfax mutual termination agreement, a break fee of a further \$1.57 million is payable to Fairfax if Vero successfully appeals the Commerce Commission decision, or another party completes an acquisition of Tower by 31 August 2018.



To date, the total cost of the corporate activity in the last six months has incurred a one off cost of \$2.3 million, this includes the \$400,000 paid to Fairfax.

The Tower Board continues to consider a capital raise to ensure prudent management of the balance sheet and accelerate the transformation of the business.

**New directors sought**

David Hancock has indicated his desire to resign from the Tower Board. Tower's Board is currently conducting a search for new Board members as part of a renewal and refresh.

The Tower Board of Directors will update the market on any further material developments as they occur.

**ENDS**

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