TOWER Australia Group Ltd

IFSA presentation
on the impacts of differing structures for
Life Insurance companies in Australia

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Ownership Structures

- **Australian company**
- **ASX listed**
- **40,000 shareholders**
- **Largest shareholder Dai-ichi Life with 28.5%**
- **Institutional shareholders (inc. Dai-ichi Life) hold approximately 70%**
- **Retail shareholders hold 30%**
- **Geographically our shareholders are split by volume of shares as follows:**
  - Australia 46%
  - Asia 31%
  - New Zealand 16%
  - Others 7%

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ASX share price Performance last 12 months

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Customer Relationships

- **Ambiguity in life industry as to what a customer is… business partner, adviser or end customer**
- **B2B partnering is a core competency for TOWER and underpins the Adviser, Group Risk and Alliances strategies**
- **In re-branding over 2008, TOWER has re-prioritised the end customer in terms of strong quality and service delivery, embedding this as a core brand value and one of four strategic priorities**
- **End customer relationship naturally strong via direct distribution business**
- **TOWER doesn't have any major owned dealer or full advice interests**

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Capital Availability

Disciplined capital management - Capacity to grow and compete

- Entered cycle with strong capital position and defensive high quality asset mix
- Strong capital planning focus
- No need to access debt or equity markets to fund organic growth unless greater growth opportunities emerge
- Continuing to recapture reinsurance and increasing risk retention
- Capital and debt can be raised from markets at any time subject to good return prospects for investors
- Acquisitions dependent on sound strategic fit and shareholder return prospects

The same capital principles apply to all these companies and their ultimate parents.

As at December 2008:

- S&P Rating: A-, positive outlook
- Solvency cover: 2.1 times
- Interest cover: 8 times
- Gearing: 24%

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Reinsurance arrangements

- **Use of Reinsurers discretionary based on our**
  - Insurance risk appetite
  - Capital levels
  - Growth rates
  - Reinsurer business weightings with TOWER
  - Our perspectives on markets and prices
- **Reinsurer portfolio is diverse with TOWER one of the few Underwriters in recent years actively using Reinsurance**
- **Diversity helps manage counterparty risk.**
- **Risk appetite around underwriting criteria and product design is similar to other market players in normalised times**

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Distribution Channels

TOWER Strategy

Retail products via full advice
- **Dealers**
- **Advisers**

- Service
- Partnerships
- Technology
- Product Design
- Innovative processes

Group and Workplace
- **Companies**
- **Superannuation schemes**
- **Master Trusts**

- Partnerships
- Business-to-Business technology
- Solutions design

Direct to consumer
- **Simpler "no advice" products**

- InsuranceLine
- Alliances
- Strong direct skills and capability
- Marketing and Sales

CORE COMPETENCIES
Underwriting, Pricing and Claims Management

ASPIRATION/GOAL
"Ongoing leadership in all segments with excellence delivered by strong people capability"

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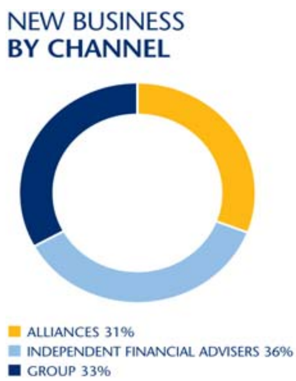
Products and Channels

- **Product mix weighted towards higher margin individual term life products**
- **Well diversified distribution platform – strong foothold in direct distribution**



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Strategic Pro’s and Con’s of TOWER Position

‘Can a specialist local life insurer succeed vs. competitors?’

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Some perceptions

- **Major instos will bias most of their effort and investment toward their owned or embedded market and distribution positions**
- **In a diverse financial services institution, capital investment will bias to extension in embedded owned market positions**
- **Senior bank executives don’t tend to bias independent advisers over owned channels**
- **In tighter times companies will narrow focus - this is obvious in the market today**
- **The Australian market has unique characteristics that favour a local competitive strategy vs. global**
- **Global companies have generally added little value to local operations - success comes from local efforts**
- **Australian-owned entities have control over their own destiny, subject to meeting shareholder return requirements**
- **Culturally, local businesses are very different to global businesses**
- **Culturally, banks are very different to non-banks**

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Themes flowing through financial services system

1. Global business model out of favour with bias to regional or local businesses
2. Global financial services players will defocus over time in Australia
3. Consumerism driving through in Life Insurance with more direct purchases expected
4. Expect more consumers to actively seek advice as a result of higher awareness
5. Margins in investment lines under extreme pressure and will reduce steadily over next few years
6. Role of advisers in investment will be diminished for next 3 years due to loss of consumer confidence
7. Smaller banks and wealth managers will be consolidated
8. Major banks will take more control in banking, lending and wealth and dominate mortgage lending directly
9. Banks will try to dominate via entrenched positions through own customer bases
10. Major IT investment will continue through life coys and platform market can't justify or keep up with this due to constrained resources and capital market returns required
11. Open architecture (choice of life product) will flow through platforms driven by consumer and adviser choice requirements

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Local specialist life insurer listed model strategic Pro's and Con's

- Close to local market and can make local decisions
- Local board and management can understand and respond more quickly to the market
- Dedicated, unambiguous focus on life insurance
- Capital available based on own performance
- Independent, rather than owned by 'big brother'
- Smaller size means cultural differences and this is attractive to many people
- Easier to drive innovation in this type of business
- Self determination important vs being lost in a large diverse business

- Larger local insto's can build and leverage brands more easily
- Large embedded or owned distribution channels can see sales volumes flow without the same need to compete around product, price and service
- The local specialist must be constantly vigilant around strong relationships, service, products and innovation
- In larger entity, the business can survive periods of poorer management focus more easily because of scale
- Size of overall business can matter to some clients
- Narrower business focus means results hinge on one business line performance ie. pure life insurance

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