



# Trying harder works

Emerging from challenging times, NZ insurer Tower is using technology to take the fight to the local market's giants

By Terry McMullan

**T**he underdog in any kind of business that's dominated by two giant competitors like IAG and Suncorp's Vero is inevitably going to find the going tough, and New Zealand's Tower Insurance has had a tougher time than most.

But as US rental car company Avis proved with its iconic "We Try Harder" campaign, there are some advantages in not being Number One. Having survived a decade of difficulties that should have seen Tower absorbed by a larger company, it is emerging as a very significant player in the New Zealand market.

The Auckland-based insurer is making itself felt through a brave investment in technology that has given it the agility and customer-friendly reach to survive and thrive as the third-largest insurer.

A brief history: Tower traces its beginnings back to the 1880s as Government Life, which became Tower in 1987 under a government corporatisation program. It became a mutual and then listed on the stock exchange in 1999. In 2006 Tower separated its Australian and New

Zealand businesses, with the Australian entity eventually becoming life insurer TAL, which was acquired by Dai-ichi Life in 2011.

Having bought a local general insurer in 1989, Tower dropped its medical insurance and wealth management businesses in 2012 and its life insurance arm the following year to become predominantly a personal lines insurer, although 50% of its business in the Pacific Islands is commercial.

The Christchurch earthquakes hurt Tower, just as it did every other insurer operating in New Zealand. Tower became embroiled in legal battles with the Earthquake Commission and a reinsurer over claims, and it's likely that the acquisition by IAG of Wesfarmers' Lumley NZ operation didn't help when it came to certainty about the future.

But through all the post-Christchurch shakiness Tower was moving ahead with a plan to raise capital and build a digital-based insurer – a plan that was well underway when Canada's Fairfax Financial Holdings



Regaining strength: Tower's Richard Harding

came calling in 2017 with a \$NZ197 million buyout offer.

It was pretty much a done deal, but then Suncorp pitched in with a 19.9% pivotal shareholding in Tower and a takeover offer worth \$NZ236.1 million, which scared off Fairfax.

Then the New Zealand Commerce Commission – which caused controversy when it approved the IAG buyout of Lumley – said no to Suncorp's takeover bid. That put Tower back where it started, sitting at Number Three and still, from outward appearances at least, looking shaky.

"They were interesting times," says Chief Executive Richard Harding, who joined Tower in July 2015.

This straight-talking Sydneysider had been running Darwin-based TIO until late 2014, when it was sold to Allianz. Prior to TIO he had spent most of his career at IAG, working as the group's head of China from 2004-07 and before that as head of strategy and mergers and acquisitions.

Talking about Tower's decade of uncertainty in his central Auckland office, Mr Harding is philosophical about the distractions caused by the takeover tussle. In fact, he sees some positives.

"We actually had a benefit in that while we had a year of the takeover activity which distracted me and the board immensely and was very difficult at a public level and from a board governance perspective, it did let my team get on and fulfil a whole lot of the business plan that we already had in train," he tells *Insurance News*.

"We were very consciously trying to separate the corporate activity from the business, and there were a lot of things that just needed to be fixed. We did a lot of that work while the takeover actions were going on over the top.

"We actually built about 16 new portfolios, and we also built our first digital platform at that stage. So we were able to do a lot of things then that were sort of under the cover of darkness.



Putting the boot in: Richard Harding and Tower staff at a "Gumboot Friday" charity event in the company's Auckland office

"When the Commerce Commission decided Suncorp shouldn't proceed, we set about trying to bring the business back into the plan we'd already established. That really revolved around recapitalising the business, getting ourselves stable and looking forward and driving the strategy.

"That's when we did the capital-raise and we could start to deal with some of the meatier issues, like replacing the core legacy platform and driving the growth of the business. It was a good place to start really driving the turnaround and making things happen."

Mr Harding emphasises the role that staff played in developing a new strategy even as bidders picked over Tower doing due diligence.

"There's a lot to be said for letting people just get on and do stuff. We've invested in our people and we've used them to drive the business."

One of the first things he did after arriving at Tower was to implement a leadership program that was designed to empower staff. "We brought in some new insurance capability that wasn't previously present, and once we had them on board and we gave our people a vision of where we wanted to go, it all really happened without much involvement from me and the board. We were doing other things."

Those "other things" included more than 60 board meetings in 2017 as the bidders sorted out takeover offers and then prepared for a capital-raising.

"Raising the capital stabilised the business," he says. "We then started investing in the IT replacement, which really has now enabled us to leapfrog or at least position ourselves to be in a far more flexible place than a lot of our competitors."

And there's the upside of it all. Tower has ended up with an underlying full-service platform that Mr Harding believes is far superior to the technology Numbers One and Two have available.

"It's fully digitally enabled, it's fully exposable to the internet, it's got APIs [application program interfaces, which control how software components interact] for every module, and we've just launched the last of our self-service capabilities so customers can come online and do any transaction they want through the self-service portal, including lodging and managing claims."

Tower is converting the data of its approximately 350,000 New Zealand customers over from its legacy system at the rate of about 30,000 a month, he says.

"By the end of this year we'll be in a place where every customer will be able to log on at any time, add something on to their contents policy, change their address, update their car details, lodge a claim, whatever they need."

Tower is already reaping the rewards from a \$NZ50 million technology investment that some market analysts saw at the time as a gamble. But now business through its new digital platform accounts for more than 55% of its new business, compared to less than 10% in 2016, and nearly 30% of claims are already being lodged online.

"IT will be absolutely fundamental to the future growth of Tower," Mr Harding says.

The strategy was underway before Mr Harding joined Tower, and he credits the company's board with taking such a brave step in investing in technology in an uncertain period. The directors, he says, recognised that technology "is the only way that we get to compete"

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“What we can do is to work out how to deliver a great customer experience, being simple and straightforward in a way that they can get it easily and cheaply. That’s the digital proposition.”

in the New Zealand insurance market.

Tower’s expense ratio shows what it’s up against in competing with IAG and Vero. It hovers around the high 30s, while Mr Harding estimates his major competitors’ would be around 20%. It’s one of the blessings of scale.

“We’re never going to be able to compete on scale,” he says. “But we will get our cost base down because of the work on our digital side. And we aren’t going to be out there competing on product differentiation or being specialists on liability or something like that.

“What we can do is to work out how to deliver a great customer experience, being simple and straightforward in a way that they can get it easily and cheaply. That’s the digital proposition.”

So, with a platform in place that provides new opportunities, how can Tower expand in a market where IAG and Vero dominate and personal lines customers don’t switch insurers easily? One way is to look outside personal lines.

Mr Harding is moving Tower’s sights on to New Zealand’s SME and micro market, where it can use its new digital advantages to attract customers, particularly those who are underinsured or not insured at all.

“I think there’s a bunch of customers out there in the SME and micro-market who are uninsured,” he says. “There’s about 500,000 small businesses in New Zealand, and of those some 320,000 of those have less than five employees.”

Many work from home, “but they think their contents insurance covers their garage full of commercial goods”.

“You also get this sense that there’s a group of people out there think it’s all too hard, it doesn’t work for me, I don’t need it, or I’m already covered. There’s a huge opportunity to create something that gives those people a really simple digital offering that they might not otherwise get.

“It’s about finding that group that’s unserved at the moment and making that opportunity come to life.

It’s about building the right product for here in New Zealand.”

Now, with Tower set on a course where it has the ability to compete and thrive, Mr Harding is looking to his own future.

Last year he told the Tower board he will leave when his present contract expires towards the end of this year.

His daughters have returned to Australia to attend university, and his wife returned to look after them. So for the past two years he has been commuting between Auckland and Sydney most weeks.

“I have no personal plans,” he says. “I’m focused on finishing up the transformation here, and I’m still focused what’s going on here. I haven’t really thought too much about what’s going on in Australia and what I might do.”

He will leave behind a New Zealand-owned company that has recovered from a near-death experience to become a confident and focused insurer that’s able to at least nip at the heels of its much larger Australian-owned rivals.

In February Tower announced that gross written premium from the core New Zealand book, including from the Youi portfolio Tower purchased last year, had increased 11% in the period to January 31. The 2018/19 profit of \$NZ28 million is a stark contrast with the depressing figures of a few years ago.

With a healthy bottom line and a blue-chip list of major shareholders, Mr Harding was able to report to shareholders that Tower “is radically different from the company it was four years ago”.

“We are now positioned to take on the New Zealand insurance market and challenge the large incumbent organisations who are slow to adapt,” he said, doubtless with a broad smile.

Avis might have recently dropped its “We Try Harder” slogan, but it’s a sentiment that still carries plenty of punch. □