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While the tension between profits and NTUC Income's social mission is expected and should not be overstated, how it aligns the values of its prospective corporate partners with the original co-op members will determine whether corporatisation will be a success. ST PHOTO: NG SOR LUAN

Income must demonstrate that its proposed corporatisation is not solely about the quest for more profits and more financial muscle, important though they are.

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For The Straits Times

The proposed corporatisation of NTUC Income is a sign of the times – that the insurance sector is being disrupted by evolving customer preferences, technological change and new players in the industry.

While Income sees the move as necessary to strengthen its competitiveness and ensure its long-term growth, it must hold on to and reaffirm its social DNA even as it transitions from a cooperative to a company where profits will inevitably play a more prominent role.

Established in 1970, Income was set up to plug a social gap – providing essential insurance coverage to workers in Singapore. Income's shareholders are the 16,000 ordinary and institutional (other co-ops and trade unions) members.

As membership-based enterprises, co-ops operate on the principles of self-help and mutual assistance, often with a social mission to benefit society.

By 2020, Income had over 2 million customers nationwide, with a total assets base valued at $45.8 billion, and gross premiums of $4.3 billion. These are impressive statistics for an insurance co-op and reflect well on the leadership and staff who have grown the business over the decades.

More importantly, they also demonstrate the trust and confidence reposed in Income by its members and policyholders who believe they are getting good value for money.

While the co-op structure has served Income well, it is increasingly unlikely to be fit for purpose if Income is to grow and remain relevant to its stakeholders.

As a cooperative, Income is subject to restrictions, such as its share price being capped at par value of $10 per share. Dividends are also capped at 10 per cent of share capital.

Under the law, only other co-ops and trade unions can be institutional investors of a co-op. This limits the funding for and scale of innovation, building the business, and venturing abroad.

A corporatised Income's shares will not be capped at par value, nor will there be a statutory cap on dividends. Crucially, corporatisation will provide flexibility in securing more capital injection for growth initiatives.

SHARPENING COMPETITIVE EDGE

Income's operating environment has undergone significant shifts, presenting both threats and opportunities.

Singapore's domestic insurance market is mature and dominated by international insurers. As many other local enterprises have experienced, there is the growing imperative to search for new markets abroad.

As a financial institution, Income has to comply with the growing regulatory expectations and requirements imposed by the Monetary Authority of Singapore which arguably are designed for corporate entities rather than co-ops.

For insurers, extensive distribution scale and access to growth channels and markets locally and regionally are vital. Income's lack of access to growth channels and markets will stymie its growth.

Income will need to better tap these distribution channels. As a co-op, however, it is at a disadvantage compared to financially better-endowed competitors.

Bancassurance, where the insurer uses a bank's distribution channels to sell products, is an example of how the financial services sector is evolving, and how insurers and banks seek to meet their customers' needs.

Many insurers have also secured cross-border tie-ups with bancassurance partners. Such tie-ups often come with strong capital backing from the insurers themselves. The financial resilience and capital adequacy of an insurer are key considerations for banks when they choose their bancassurance partner.

Moreover, Singapore's insurance sector is witnessing consolidation. Singapore Life (Singlife) and Aviva Singapore announced their merger in September 2020, and HSBC acquired AXA Singapore in August last year.

Meanwhile, customers are gravitating towards digital channels, requiring insurers to adapt and anticipate consumer needs and expectations. Many are not averse to buying products (even complicated financial ones) virtually. Customers, especially the young or more digitally savvy, will opt for insurers with a variety of customer touchpoints and digital offerings.

To satisfy increasing customer expectations for more targeted products and solutions, Income will require heavy and continual investments in technology infrastructures and innovations.

To be sure, Income has not limited its ambitions and innovativeness despite being a co-op. In October last year, amid the pandemic, it made its first overseas foray into Indonesia, Malaysia and Vietnam through strategic partnerships with local entities. In these foreign tie-ups, it will offer micro-insurance that was first launched in Singapore in 2018.

Income has also pioneered subscription-based insurance that offers customers protection based on their lifestyles, and at the price they want, with no lock-in periods. Income's Snack mobile app product lets customers grow their insurance cover with tiny premiums (as little as 30 cents) each time they undertake daily activities, such as buying snacks and taking public transport. These accumulated payments can go towards their term life, critical illness and personal accident policies, and customers can stop payments at any time.

ENGAGING CONCERNS OVER CORPORATISATION

The business case for Income's corporatisation is compelling, and Income has assured its stakeholders that it remains committed to its social mission even after it corporatises.

Over the years, Income's niche insurance offerings testify to its social mission of serving unmet or under-served insurance needs. It has a track record of serving clients who are not covered by other insurers. For example, it has enhanced seniors' access to insurance, and provided insurance protection for children and youth with special needs and self-employed persons, as well as insurance plans for migrant workers for non-work-related death, total and permanent disability, and critical illness.

To be clear, co-ops, while being neither profit-maximising entities nor non-profits, must be profitable. For co-ops to further their social mission, profits are essential and enable them to better serve their members, and remain competitive and relevant, as well as to be financially sustainable and innovative in their products and services.

Ultimately, it is how profits are used that is the key difference between a co-op and for-profit corporate entity.

Income must demonstrate that its proposed corporatisation is not solely about the quest for more profits and more financial muscle, important though they are. It must demonstrate unequivocally that corporatisation is fundamentally about better serving its stakeholders, remaining relevant in a more competitive environment, while responding to the anticipated changes in the future.

Critically, Income's "insurance-as-a-service model" must be maintained or even enhanced when it corporatises. Greater profits must not come at the expense of serving workers and lower middle-class Singaporeans.

By remaining within the National Trades Union Congress Enterprise's (NE) network of organisations, and with NE remaining as the corporatised Income's major shareholder, there is some assurance that Income's social purpose can be retained as its distinctive character. Income's pledge of $100 million over 10 years to sustainability causes, including environmental and social ones, is an appropriate start.

While the tension between profits and its social mission is expected and should not be overstated, how Income aligns the values of its prospective corporate partners with the original co-op members will determine whether corporatisation will be a success.

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