Publication: The Business Times, pg 17
Date: 15 February 2022
Headline: Keeping true to Income's purpose is key to a successful corporatisation

Income's niche insurance offerings over the years testify to its commitment to its social mission of serving unmet or underserved insurance needs. Income's recent innovations include pioneering subscription-based insurance that offers protection based on one's lifestyles, and at the price a policyholder wants and with no lock-in periods. BT FILE PHOTO

Keeping true to Income's purpose is key to a successful corporatisation

Established in 1970 to provide affordable essential insurance coverage to Singapore workers, the firm is the only insurance cooperative in Singapore. **BY EUGENE K B TAN**

COME Feb 18, NTUC Income's 16,000 ordinary and institutional members will vote at an extraordinary general meeting on changing its legal character from that of a cooperative to a public company limited by shares.

In May 2013, Tan Suee Chieh, then NTUC Enterprise's Group CEO-designate, wrote to this newspaper stating that "Listing an NTUC social enterprise would change its fundamental character and objective of putting people before profits ... Instead, by listing, profits would take precedence. The organisation would have to work to maximise shareholder profits instead of maximising value for all customers".

Tan was then responding to a reader's suggestion for NTUC Fairprice and Income to be corporatised or listed. Corporatisation may be a middle ground for Income between being a cooperative or a listed company.

Established in 1970 to provide affordable essential insurance coverage to Singapore workers, Income is the only insurance cooperative in Singapore. Cooperatives operate on the principles of self-help and mutual assistance to its members. They often have a social mission to benefit society. In 2020, Income had over 2 million customers, a total assets base valued at S$45.8 billion, and gross premiums of S$4.3 billion.

The allure and imperative of corporatisation

The announcement by Income of its proposed corporatisation is a sign of the times in the financial sector. The insurance industry is being disrupted by evolving customer preferences, technological disruptions, and new players in the sector.

Among other things, given the capital-intensive nature, insurers in the Asia-Pacific are intensively raising capital through debt or equity. Domestically, the sector is undergoing consolidation. Singapore Life-Aviva announced their merger in September 2020, and HSBC acquired AXA Singapore in August 2021.

In its communication with policyholders last month, Income described this proposed development as "a significant milestone" which would "further strengthen (Income's) competitiveness for long-term growth" enabling it to serve its policyholders better. Crucially, it also reaffirmed its steadfast purpose to empower better financial well-being for all, including those who are underserved in Singapore.

The corporatisation rationale should not surprise us. It is primarily about Income having more operational flexibility in an increasingly competitive landscape, sharpening its responsiveness to changing needs, meeting regulatory demands and competition which even as a cooperative it is not exempted from. Customers also increasingly expect more accessible and comprehensive solutions, including digital innovations.

Income also stated that corporatisation, expected to be completed in the second half of 2022, would have no impact on existing policy terms and benefits. Coverage, benefits, and terms of existing policies with Income, including how they will be administered, will remain unchanged.

For any business, profits are essential. Profits are no less important to cooperatives as they are to corporatised entities. However, it is the social mission of a cooperative that disciplines how it fulfils its purpose and makes and uses its profits.

Under the law, only other cooperatives and trade unions can be institutional investors of a cooperative. Thus, raising capital tends to pose a bigger challenge for cooperatives than for their commercial counterparts. The lack of flexibility in raising capital can limit a cooperative's scale of innovation in their products and services, building a competitive, financially sustainable business, and venturing abroad.

For Income as an insurer and a cooperative, its ordinary members' shares do not count towards its capital adequacy ratio as they are redeemable. Under the Financial Reporting Standard 32, Income's cooperative shares are contingent liabilities.

In 2018, the Co-Operative Societies Act was amended to provide for a new class of irredeemable permanent shares for institutional shareholders. These shares also count towards meeting solvency requirements. NTUC Enterprise (NE) was the only institutional member who had converted its shares to irredeemable shares. Even then, it would probably be inadequate for Income to only rely on NE's capital injection.

Engaging concerns over corporatisation

Singaporeans are perhaps understandably enamoured with the idea of cooperatives, an increasingly rare business vehicle domestically. It should not surprise us that Singaporeans are "protective" of Income's cooperative status to varying degrees, reflecting its relevance and its success as a local brand.

Since announcing its corporatisation plans, one concern expressed is whether for new policies, premiums would increase, terms and benefits less generous, and claims harder to be satisfied. A related concern and fear is whether Income will relegate serving workers and the lower middle-class Singaporeans.

Income's niche insurance offerings over the years testify to its commitment to its social mission of serving unmet or underserved insurance needs. Income's recent innovations include pioneering subscription-based insurance that offers protection based on one's lifestyles, and at the price a policyholder wants and with no lock-in periods.

For instance, Income's SNACK product enables policyholders to 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.

Among insurance companies in Singapore, one distinctive attribute of Income is its track record of serving clients that other insurers do not. For example, it has enhanced seniors' access to insurance, provided insurance protection for children and youths with special needs, self-employed persons, as well as insurance plans for migrant workers for non-work-related death, total and permanent disability, and critical illness.

A corporatised Income must continue to draw inspiration and lessons from its constant drive for insurance innovations, particularly for segments which doubted they could afford insurance. This focus on providing affordable insurance access must endure even when it corporatises.

NE is firmly behind Income's corporatisation plans; it will be corporatised Income's majority shareholder. The corporatised Income will remain a part of NE's network of organisations. NE must ensure that Income continues to empower financial well-being across all segments of Singapore, especially the underserved.

Even as a corporatised Income will regard itself as a social enterprise, it could go further and entrench in its founding documents the same social mission as its predecessor. Income's social mission can continue to be its defining character.

This "for benefit" mission requires balancing profit with the purpose to benefit all stakeholders, which Income is not unfamiliar with. Its annual reports indicate that Income contributes 1 per cent of operating profits to social causes in addition to other corporate giving and measures its social impact as part of its overall corporate performance. It also pledged last month to contribute S$100 million over 10 years to support social and sustainability causes, as a commitment to delivering positive social impact.

Systemic benefits of
Income's corporatisation

Beyond the benefits of corporatisation to Income, having strong insurance companies in Singapore, especially homegrown ones, is vital to the economy and society. When one considers the assets under the management of insurance companies, its contribution to the national GDP, the importance of the insurance industry to a modern society cannot be overstated. Many activities would not take place were it not for the management of risks through insurance coverage.

Returning to NE's Tan's 2013 letter, Tan rightly noted that the global financial crisis of 2008-2009 "demonstrated the shortcomings of unfettered free market capitalism and having a short-term focus on profits. Within this context, the social enterprise as a business model has become even more compelling".

To this end, the corporatised Income should assiduously demonstrate that profit and purpose are interdependent and that business can be a force for good. Income must demonstrate unequivocally that its corporatisation is fundamentally about better serving its stakeholders, especially policyholders.

The defining challenge for a corporatised Income is how well it aligns its corporate purpose and values with that of its cooperative predecessor. The demands of being a public company must not detract Income from its social mission of catering to the masses through affordable and quality insurance that serves the needs of customers at different life stages.

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His parents bought an Income policy for him in 1974.