

Further clarification in relation to the Pre-Conditional Voluntary Cash General Offer from Allianz Europe B.V.

30 JULY 2024 – The Pre-Conditional Offer Announcement from Allianz Europe B.V. (“Allianz”) on 17 July 2024 has garnered attention. We would like to provide further context to address questions that have been raised.

NTUC Enterprise Co-operative Ltd (“NTUC Enterprise”) always aims to do what is in the best interests of Income Insurance Limited (“Income Insurance”) and its stakeholders, especially its policyholders.

Income Insurance must grow and thrive as an enterprise to better discharge its obligations to policyholders in the longer term

The circumstances between when Income Insurance was founded and today are vastly different. While the goal of providing affordable insurance remains, the competitive landscape has changed with more than 40+ global, regional and local insurers vying for growth in a mature Singapore insurance market. This is demonstrated by the fact that, despite putting in very competitive bids, Income Insurance lost out on several key contracts to its global and regional competitors, such as in bancassurance, the Dependents’ Protection Scheme, and group insurance for a large public organisation.

It proves that strong and continuous capital support and resilience is a prerequisite for growth in this competitive environment, which a social enterprise model alone cannot shoulder. It also informs that a continuous and rapid evolution of expertise is needed to stay relevant, today and in the future.

As stated in the Pre-Conditional Offer Announcement, the proposed transaction will enable Income Insurance to leverage Allianz’s global insurance franchise, asset management capabilities, technology and product development, distribution and reinsurance expertise. This will strengthen the future competitiveness of Income Insurance vis-a-vis the global and regional insurers operating in a highly competitive and open Singapore market.

NTUC Enterprise Chairman, Mr Lim Boon Heng said: “Income Insurance remains firmly committed to delivering the social outcome of protecting families financially against key risks in life. This social objective remains unchanged since its founding in 1970 by the NTUC. A stronger Income Insurance, to be anchored by both Allianz and NTUC Enterprise as institutional shareholders, upon successful closing of the proposed VGO, can better offer competitive and affordable products, including those for the masses and the lower income.”

NTUC Enterprise continues to be a responsible steward of Income Insurance

NTUC Enterprise has been the steward of Income Insurance over the years and had taken the following actions to protect the interests of policyholders, as insurance is a long-tail business.

1. Against the backdrop of stricter regulatory requirements for solvency management and greater demand for capitalisation to thrive in an increasingly competitive market, NTUC Enterprise issued a letter of responsibility to the MAS in 2012, indicating that it would ensure that Income Insurance (then a co-operative society) always maintained a sound liquidity and financial position by supporting Income Insurance to meet its present and future obligations and liabilities, including any liquidity shortfall.
2. NTUC Enterprise proposed to the government to amend the Co-operative Societies Act to enable Income Insurance to create a class of irredeemable shares, and when this was implemented, converted its shares to irredeemable shares so that it could be classified as Tier 1 capital to count towards its capital adequacy

ratio. Otherwise, shares of co-operative societies are redeemable and therefore classified as contingent liabilities according to international accounting standards.

3. NTUC Enterprise has always ensured that Income Insurance is placed on a solid base for it to discharge its commitments. Income Insurance's capital buffers, despite being well above the regulatory requirements during normal circumstances, came under pressure during the various economic downturns - the Asian Financial Crisis, Global Financial Crisis and the recent COVID-19 pandemic. NTUC Enterprise provided several capital injections, totalling S\$630 million between 2015 to 2020, to ensure that Income Insurance is adequately capitalised. This included a capital injection of S\$100 million during the COVID-19 pandemic in 2020, which was particularly important for the solvency of Income Insurance at that time. In addition to capital injections, Income Insurance also issued S\$600 million subordinated bonds in 2012 (fully redeemed in 2022) and another S\$800 million in 2020 to shore up its capital strength so that it can meet its obligations and grow its business.
4. NTUC Enterprise supported the corporatisation of Income Insurance as this was in line with NTUC Enterprise's aim to provide strategic flexibility to Income Insurance and further strengthen its long-term competitiveness. In this regard, NTUC Enterprise remained a majority shareholder of Income Insurance, cognisant that corporatisation would provide the company flexibility to consider strategic options that could support the long-term growth of Income Insurance.

This was reiterated by Andrew Yeo, Chief Executive of Income Insurance, in the article published in The Straits Times on 6 January 2022, where he was quoted saying, "the process will create more options for Income through the likes of mergers and acquisitions, joint ventures and initial public offerings". With regard to concerns raised around whether there was already an intent to sell a majority stake during corporatisation, there were no material developments at the time and hence it would have been misleading to say anything more than the fact that NTUC Enterprise would remain a majority shareholder, subject to the interests of Income Insurance.

Income Insurance will continue to be a financially profitable and socially responsible business

NTUC Enterprise Chairman, Mr Lim Boon Heng, said "As more and more leading businesses embrace stakeholder capitalism in their corporate purpose, social enterprises and co-operatives can no longer claim that they are unique in doing good. Every enterprise must earn its cost of capital to be financially sustainable in the long term. There is a misperception that NTUC Enterprise and Income Insurance have become profit-oriented. From the start, NTUC co-operatives like Income Insurance and Welcome (now FairPrice) generated surpluses, so that they could be financially sustainable, fulfil obligations to policyholders, reinvest to grow, attract talent, distribute dividends to shareholders, and rebates to members. Going forward, NTUC Enterprise intends for Income Insurance to continue to be an important financially sustainable and socially responsible business, in line with its enduring purpose of empowering financial well-being for all."

NTUC Enterprise expects the combination of Income Insurance's strengths and Allianz's global capabilities to create a highly competitive composite insurer in Singapore, as Allianz's financial strength, technical expertise in capital management and asset management expertise will underpin the value of policies that Income Insurance has sold, and those that the combined entity will sell. These capabilities and expertise have convinced NTUC Enterprise to cede a majority stake to Allianz. The goal is not to just bring in a financial investor, but an experienced global player who can grow a large and thriving Income Insurance.

As stated in Allianz's media release on 17 July 2024, Allianz is one of the world's largest global financial services groups. It was founded more than 130 years ago and is present in nearly 70 countries today. Present in Asia since 1910, Allianz has a balanced and well-diversified footprint across 9 markets in both Life & Health and Property &

Casualty, serving 9 million customers through a network of 80,000 distributors and 35 distribution partners. Its commitment to Singapore is further underlined by the fact that its regional Asia Pacific headquarters is based in Singapore.

Both Allianz and Income Insurance share common values and an ambition to grow and serve Singapore, which strengthens NTUC Enterprise's conviction that it is in the best interests of Income Insurance's policyholders and shareholders.

NTUC Enterprise expects that the partnership between Allianz and Income Insurance will open up exciting opportunities. The public may look forward to the Allianz-Income partnership to spell out its vision and goals after the transaction is completed.

NTUC Enterprise Chairman, Mr. Lim Boon Heng said "The insurance industry is very competitive, with the policyholders having multiple choices, in terms of pricing and premiums. Under changed circumstances, the co-operative model is no longer an effective one for Income Insurance's competitive ambition and growth plans to deliver social outcomes. Going forward, Income Insurance will be backed by not one, but two institutional shareholders, NTUC Enterprise will remain a substantial shareholder to provide direction towards the social outcomes, in line with the principle doing good and doing well".

Appendix A

"ARE CO-OPS STILL RELEVANT TODAY?": MR LIM BOON HENG AT THE SERVICE SECTOR FORUM 2023

Mr Lim Boon Heng is a familiar face in the co-operative eco-system. At the Service Sector Forum held earlier this year, he returned to share his take on whether co-operatives are still relevant today. Read his full speech below.



“Unity is strength!” Solidarity!

That was the mantra of trade unions when I joined the NTUC in 1981. Individually, workers were no match to the employer. By coming together in one body, ordinary workers had collective strength with which they could negotiate for better terms of employment.

The same principle led to the formation of cooperatives. Any group of individuals can leverage on their larger total requirements to obtain better prices and terms from suppliers. Throughout history, cooperatives have played a significant role in society – from farmers to consumers.

Rabobank in the Netherlands started as a farmers banking cooperative. The cost of operations was kept low. Officials received no remuneration. Only the “cashier” was paid. He was the one who took care of the deposits and loans.

Today any group of consumers can still band together to negotiate better prices through bulk purchase. It depends whether among them are people willing to lead, and whether they will take care of the distribution themselves. It is also a question of whether the margin of difference makes it worth their while.

In 1969, when the PAP government suggested that the NTUC set up cooperatives, the principle behind the idea was very familiar to the unionists. It was a question of whether they had the guts to embark on unfamiliar ground of running businesses. Both NTUC Welcome, the supermarket cooperative (now the NTUC FairPrice Group), and NTUC Income, the

insurance cooperative (now corporatized into a company under the Companies Act), each started off with a capital of \$1 million. Needless to say, in the early 1970s, it was no mean task to raise \$1 million. It showed the mindset of the unionists at the time – their dare to do.

Primary cooperatives are cooperatives of individual members. The members of NTUC's early cooperatives were both individuals and unions. The cooperatives set up by NTUC later were largely secondary cooperatives, made up of institutional members. Still, the underlying principle of the ordinary men in the street banding together was maintained, since the institutional members were unions or cooperatives, which in turn comprise individual members.

In the orthodox form, cooperatives benefit their members. One had to be a member to benefit from the services of the cooperative. When NTUC set up cooperatives, they served the wider public – members as well as non-members. Mr Devan Nair, when explaining the service philosophy of the NTUC cooperatives, used the example of NTUC Denticare – that it would pull the teeth of both unionists and non-unionists in equal measure!

From the outset, each co-operative that the NTUC set up has a clear social purpose. They were not set up to make money, and then contribute part of profits to CSR projects. NTUC Welcome was set up to combat profiteering, and moderate the cost of living. NTUC Income was set up to provide insurance coverage for the unserved lower income. Doing good is not an after-thought – it is inherent in the business itself. Both cooperatives also put aside part of their surpluses to help the disadvantaged in society. So, they do good two ways.

Five decades on, the world has changed.

First, Government has ensured the consumer get fair prices – through competition. This policy lever ensures that by and large, consumers get fair prices. This policy lever is powerful and effective, but not perfect.

Second, globalization has led to the growth of large corporations, which leverage on their scale to obtain the best prices for consumers. The large corporations are here to stay, though their clout may be lesser now as the world moves into what looks like “bifurcated globalization”. They also need to evolve to build resilience in their supply chains. Small enterprises will likewise be affected; and they will still be hard-pressed to match the large corporations in cost and price leadership.

Third, the rise of digital e-commerce platforms has enabled the consumer to source for the best prices, anywhere in the world. This heightens competition, adding to the competition lever used by the government. At the same time the small producers can sell to the global market. The e-commerce trade is supported by the rise of new logistics chains. But some of these e-commerce platforms have grown so big that governments now need to manage their monopolistic or oligopolistic tendencies.

Fourth, the business world is changing too – with much discussion on corporate purpose and stakeholder capitalism. Corporate Purpose is underpinned by a set of values. In Singapore, MCCY sponsored an Alliance for Action on Corporate Purpose, which launched a publication “Corporate Purpose: A Framework and Blueprint for Business in Singapore” at the Company of Good Summit on 12 January 2023. Doing good should therefore be inherent in the business itself. And they should continue to put aside part of profits to help the disadvantaged.

Fifth, there is also increasing use of another structure – the Company Limited by Guarantee, or CLG. This structure is seen to be more flexible than the cooperative structure. CLGs are largely similar to companies in the way they operate, except that no surpluses are paid to shareholders: all surpluses go back into doing the good that the entity was set up for. It is a particularly attractive structure if the entity receives large grant support from the government, and these grants are given to achieve a social purpose.

With these developments, *are cooperatives still relevant?*

I noted that **cooperatives were absent at the [Company of Good Summit](#)**. As one who has been with the trade union movement and the cooperatives for many years, I found this absence stark. It bears reflecting why there were no cooperative leaders there. Do cooperatives still have a significant public mindshare?

I believe that the five developments I listed pose huge challenges for the cooperative movement in Singapore.

As more and more leading businesses embrace stakeholder capitalism in their corporate purpose – some draw up ethical statements, incorporated in their articles of association – cooperatives can no longer claim that they are unique in doing good.

Businesses can leverage on scale to drive cost leadership, and offer the best prices. Most of Singapore's cooperatives are very small, operating in the small Singapore market. They cannot benefit from economies of scale. They are too small to afford the best talent. As is well known, success depends not on the concept, but on the strategies and execution. The quality of talent determines the outcome.

Then, in businesses that are capital-intensive, it is difficult for cooperatives to scale. Share capital provided by members are classified as contingent liabilities by accounting rules. The inability to raise capital that count towards CAR (Capital Adequacy Ratio) was a key reason for NTUC Income's corporatisation.

There is also poor understanding of cooperative principles, even among members. They often ask why cooperative shares cannot be traded like equities on the stock exchange!

There is much for the cooperative movement in Singapore to ponder over. How can they retain the low-cost model of the past? How can the lack of scale be overcome? One 'no regrets' move would be to form partnerships, which in concept is akin to the cooperators model. It is not easy, but still possible in niche areas.

However, we must remember that it is not the form, or the structure, that matters. What matters is the spirit of the enterprise. The underlying spirit is solidarity, collective action, power of aggregation for scale and cost leadership, to benefit all stakeholders. To stay true to corporate purpose, corporate values and individual values assure the outcome.

For and on behalf of
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