

NTUC Income : managing social mission and business goals in a market-driven economy

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**NTUC INCOME: MANAGING SOCIAL MISSION AND
BUSINESS GOALS IN A MARKET-DRIVEN ECONOMY**

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One evening in December 2000, Tan Kin Lian, Chief Executive Officer (CEO) of NTUC Income (INCOME), Singapore's only insurance cooperative, walked into an auditorium to address a group of sales agents. The 30-year-old Cooperative had enjoyed tremendous growth. However, like many organisations and businesses in Asia, the cooperative's members and policyholders were not spared the impact of the Asian Financial Crisis of 1997-1998. Tan was thankful that the cooperative's strong reserves had enabled it to help hard-pressed policyholders tide over this period.

As he looked across the sea of familiar faces, he knew that the Cooperative faced a serious challenge in the near future - the Singapore government's plan to liberalise the financial industry. New competition from the banks with their extensive networks and resources, as well as more sophisticated consumers, could threaten the populist base of INCOME's 4,000 strong, well-established, mainly part-time sales agency force. New regulations on the training of sales agents could force a good proportion of INCOME's sales agents out of the race for policies. The Cooperative's strong values were the driving force for growth in the last three decades. To continue this growth momentum in the new liberalised insurance market, INCOME would have to strengthen its management team, retool the sales force and enhance the organisation's portfolio management capabilities. Not only would INCOME have to compete with the commercial insurers and banks for the best talents, this new generation of managers and sales agents would have to accept and be committed to the social values and mission of INCOME. The challenge was finding the right mix of passion and competencies in the new generation of leaders for the Cooperative.

Associate Professor Wee Beng Geok and Associate Professor Robert Lian prepared this case with research assistance from Research Associate Shirley Koh. The case is based on public sources and interviews with key personnel from NTUC Income. As the case is not intended to illustrate either effective or ineffective practices or policies, the information presented reflects the authors' interpretation of events and serves merely to provide opportunities for class discussion. The case replaces an earlier version, "NTUC Income moves into uncharted waters - A union-based insurance cooperative faces the liberalization of the financial industry in Singapore".

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INCOME'S FIRST 30 YEARS

INCOME was set up on 21 November 1970, the first cooperative society to be established by the National Trades Union Congress (NTUC), a confederation of trade unions in Singapore.¹ The initial paid-up capital of INCOME was S\$1.2 million, mainly subscribed by 16 trade unions under the NTUC umbrella.

Before 1970, only three percent of the Singapore population was insured. Conceived as the poor man's insurer, INCOME tapped on the trade union network of contacts in Singapore, cutting across social class, race and language. The union federation's formal structure of individual unions, union branches, company-based union shop stewards and union members presented INCOME with a large customer base. It also provided the cooperative with a ready and low-cost sales force that was without parallel in the private sector. Hence, INCOME was able, within a relatively short time, to build a large pool of part-time sales agents who sold policies to union members at their workplaces and around their neighbourhoods.

Building on this customer base, INCOME announced 30 years later that it had sold over a million policies.² Within this period, INCOME emerged as one of the key players in the life and general insurance businesses in Singapore. In 2000, INCOME's accumulated assets reached S\$5 billion. Premium income grew from S\$400,000 in 1971 to S\$1.2 billion in 1999.

In the life insurance business, INCOME ranked among the top four insurers in terms of premium income in Singapore with a market share of 16.58 percent in 1999. (See **Exhibit 1**.)

In the general insurance business, INCOME was the leader in the retail market. In 2000, one out of every four cars on Singapore roads was insured by the cooperative. INCOME also held a major market share in health insurance with its medical cover plan, Incomeshield, which provided hospitalisation coverage for people up to 80 years of age.

In September 2000, CEO Tan Kin Lian attributed the phenomenal growth of the cooperative to three factors:

*First, we have very strong support from our big base of loyal policyholders who insured their family, home and car with us. Second, we operate efficiently and at low cost, allowing us to provide competitive rates and quality service to our policyholders. Third, as a cooperative, we are able to distribute our surplus to our policyholders.*³

INCOME developed its winning strategy by leveraging on its local trade union ties to build the largest individual policyholder base in Singapore. These ties enabled the cooperative to evolve into a low-cost agency structure, with a single-tier distribution system distinct from its competitors, providing it with a sizable expense advantage over its peers.

According to Tan, INCOME's expense ratio for motor insurance was 20 percent compared with the standard 32 percent for the industry in 1999.⁴ This allowed the cooperative to write the business profitably even though the industry suffered an underwriting loss for that year.

As a Cooperative under the NTUC umbrella, INCOME's mission went beyond maximising shareholders' value to include key social objectives. A benchmark to measure INCOME's performance was the share of the life-fund surplus returned to policyholders. Up to 2000, INCOME returned 98 percent of its surplus to policyholders, eight percent more than the 90 percent minimum set by the Monetary Authority of Singapore (MAS) for the insurance industry.⁵ Spared from the profit maximisation objectives for shareholders, it was able to distribute special bonuses to policyholders. A special bonus was announced three times between 1990 and 2000.

TRADE UNION INFLUENCE ON ORGANISATION'S VALUES AND MISSION

In 1969, Singapore's political leadership was looking for a means of redirecting the energies of a militant union movement to the mainstream activities of nation-building. For the trade union movement, this included redefining the social and economic role of the unions beyond that of 'mere bargaining institutions'.⁶

1 In 1970, NTUC and its affiliated unions had a total membership of 112,488 employees representing 17 percent of the total workforce.

2 *NTUC Income Annual Report 1999*, Singapore.

3 NTUC Income. (2000, July - September). *Income Focus*.

4 Interview between NTUC Income CEO Tan Kin Lian and the authors in July 2000.

5 *ibid*.

6 Goh Keng Swee (1995). Speech delivered on 18 November 1969 at the National Trades Union Congress delegates' seminar on "Modernization of the Labour Movement" at the Singapore Conference Hall. In *The economics of modernization* (p. 89-97). Singapore: Federal Publications.

As cooperatives embodied both social and economic objectives, they were viewed as ideal vehicles to promote and implement the political leadership's 'new' vision, as well as a platform to manage the process of change. The organising skills and energies of members could be redirected to the union cooperative movement. The cooperative's mix of commercial orientation and social concerns would be a moderating influence on prices of essential goods and services.

By the end of the 20th century, at least two union-sponsored cooperatives in Singapore had become important alternatives to commercial enterprises in delivering key goods and services to the majority of the working population. INCOME was one of these two. (The other was NTUC Fairprice, Singapore's largest chain of supermarkets.)

The NTUC and its affiliated unions provided INCOME with the paid-up capital, the pioneer sales force and the initial pool of customers. In 1970, all INCOME agents were recruited from the unions. Thirty years later, INCOME had 3,200 part-time agents (80 percent of the total sales force), 2,000 of whom were union members.

INCOME's parentage and organisational form afforded the insurer greater flexibility in the management of products and returns. Although profitability remained a central goal, other values were important. According to Tan, INCOME, as a cooperative, adopted the following guidelines:

- Improve the quality of products and service
- Aim to meet the real needs of members (that is, policyholders)
- Do not seek to maximise profits from customers
- Distribute most of profits back to customers
- Look for ways to improve customers' livelihood beyond insurance service.

Tan added:

These core values have shaped our strategy for the past 30 years, and will continue to be our key driving force for the future. We educate our employees

and agents constantly on these values. We want them to feel proud to be working in such an organisation that is different from others. These values continue to be relevant in today's social and business environment, more so than ever.⁷

LEVERAGING ON COOPERATIVE STATUS

INCOME was able to work to its advantage the regulations governing cooperative societies in Singapore. For instance, in 1970, Singapore's employment laws did not permit third party deductions to be made direct from employees' salaries or wages (even with the employees' approval), with the exception of contributions to cooperative societies. As a cooperative, INCOME could request employers for monthly premium deductions to be made from the wages or salaries of policyholders. This substantially cut the cost of administering the monthly collection of premiums (especially before the use of Interbank GIRO in 1978) and in part enabled INCOME to market a low monthly-premium product to the working class market.

INCOME also made similar salary deduction arrangements with Singapore's Defence Ministry, and tailor-made special endowment policy products for young Singapore males serving their compulsory military service.

SINGLE-TIER SALES AGENCY STRUCTURE

The organisation of INCOME's sales distribution system was unique among the life insurers in Singapore. From the very beginning, the cooperative operated a 'single-tier' agency system. Under this system, only the sales agent and no one else received the commission on the premium from the policy sold.

In securing a life policy deal, full-time INCOME agents were paid 40 percent of the premium paid by the insured during the first year and 32 percent in each of the next five years. Part-time INCOME agents, on the other hand, received lower commission rates. For life insurance plans which attracted single premiums, the commission rate was 4.5 percent. For annuities, it was one percent.⁸

⁷ Interview between NTUC Income CEO Tan Kin Lian and the authors in July 2000.

⁸ Raising the curtain on agents' commission. (2000, October 1). *The Straits Times*, Singapore.

Sales agents were organised into teams comprising 15 members and a team leader. At the next (higher) level, each field executive took charge of a group of 12 teams. At the branch level, each branch manager was responsible for five groups. Team leaders, field executives and branch managers were full-time employees of INCOME and were given modest incentives in addition to their basic salaries instead of overriding commissions.

COST LEADERSHIP

The typical INCOME policyholder was perceived to be price-sensitive. To reach out to these customers, INCOME had to price its products competitively. Its primary strategy was to keep costs low and compete on the basis of lower premiums and higher-than-average bonus surplus to life policyholders (98 percent by INCOME as compared to 90 percent by other insurers). Its agency-related expense rate was the lowest in the industry. (See Exhibit 2.)

To improve productivity and reduce costs, from the 1970s, INCOME became an early adopter of information technology, initially to improve internal efficiency in data processing and later, to improve productivity of the sales force.

SELLING TO THE MASSES

The Cooperative's leadership recognised very early on that it did not possess the professional expertise and competencies required to service the commercial markets. However, with the grassroots connections, INCOME turned its attention to the mass market and achieved market leadership in the annuity, medical coverage and motor insurance businesses. Also, for sales agents from commercial insurers, there were then not much financial incentives to push these products as the commissions earned were low and, with multi-tier distribution of commissions, unattractive.

To maintain their lead in the mass market, the Cooperative developed various channels in order to stay in touch (for example, regular e-mail updates to policyholders, a quarterly bilingual newsletter, electronic bulletin board, and birthday cards), as well as specially-priced services to build customer

loyalty (for example, household services, vehicle breakdown services, tenant check service, tuition service, house-moving service, travel services, loans for life policyholders).

INCOME'S LIFE ASSURANCE BUSINESS

In the year 2000, the major life insurance products for INCOME were: Living Policy, Protection Policy, Mortgage Protection Policy, Term Policy, Annuity Plans, Growth Policy, Endowment Policy, Capital Plus Policy, Anticipation Policy, Living Endowment Policy and Saver Policy.⁹

The Cooperative distributed S\$153 million in additional bonuses to 500,000 life policyholders in mid-2000. This was the third additional bonus that the cooperative had distributed to policyholders, with the first in 1990 and the other in 1995. For INCOME, the additional bonus was the linchpin of its strategy for life insurance products, a key to sales of INCOME's life assurance policies.

In the short span of 30 years, INCOME had successfully transformed itself from a newcomer to an established player in the life assurance business.

GENERAL INSURANCE PRODUCTS

The Cooperative entered the general insurance business in 1975, and unlike the life insurance business, INCOME had no special advantage in this area. There were no ready networks to tap on for this business. The market then was more competitive than that of the life insurance business with 61 general insurers going after a fixed volume of business.

INCOME's basic strategy for the general insurance business was to focus on the individual and small businesses rather than the corporate market. Tan recalled that the primary business strategies (for both the life and general business) from 1976 to 1986 were to:

- Maintain low expense rates
- Make greater use of computers for heightened efficiency

9 NTUC Income website. Retrieved July 15, 2000, from <http://www.income.com.sg/insurance>

- Develop special market niches
- Improve services to policyholders¹⁰

Twenty-five years later in 2000, INCOME remained the only one among the top four life insurers in Singapore involved in the general insurance business.

Motor Insurance

In the late 1970s, INCOME decided to move into the motor insurance market. Most private insurers were lukewarm towards underwriting motor insurance as the loss ratios were high and the business unprofitable. Tan felt otherwise and was confident that the business could become profitable with sound underwriting, efficient administration and proper claims control. With a market share of 26 percent and insuring about 120,000 vehicles, INCOME was the largest motor insurer in Singapore in 2000.

Medical Insurance Plans

In the mid-1990s, INCOME was the only insurer to respond to the government's call to provide hospitalisation expense insurance, Incomeshield, as an alternative to a medical insurance plan managed by the state-run Central Provident Fund (CPF), a defined contribution pension scheme. By 2000, more than 215,000 people had taken up this policy with the Cooperative. Besides this, other medical related products included a managed healthcare system, family plus policy, co-pay assist and worldwide medical insurance.

PRODUCT INNOVATION

The early INCOME pioneers set the tradition for product innovation that was to continue over the next 30 years. The Cooperative was the first to introduce special tailored products such as single-premium annuities and reverse mortgages in the Singapore market.

Single-Premium Annuities

INCOME entered the single-premium annuity business in 1993, designing a range of products to cater to Singaporeans, who, on reaching 55

years, were entitled to take out their accumulated contributions from the CPF. With the 'first-mover' advantage in the single-premium annuity business, INCOME was the market leader with its 60 percent market share in 2000.¹¹

The primary rationale for developing the single-premium annuity was socially driven. INCOME, as a cooperative, saw its role as meeting the needs of the retired employee for a stable and guaranteed lifetime income flow.

Reverse Mortgages

In January 1997, INCOME became the first financial institution in Singapore to offer reverse mortgages to its elderly policyholders aged 60 and above. The escalation of property prices in Singapore from the mid-1980s to 1990s meant that the major assets of many Singapore citizens at the point of their retirement from active economic life would be the sum invested in their homes. Reverse mortgages could enable these retirees to continue to live in their homes while receiving regular income flows for their retirement years. While INCOME saw this as a worthy social goal, the Cooperative had less success in marketing this product than with single-premium annuities. A major obstacle to the marketing of reverse mortgages was that the Housing and Development Board (HDB) did not allow its homeowners, who made up more than 80 percent of Singapore's population, to mortgage their HDB flats.

Special Needs Insurance Policies

Over the years, INCOME was quick to recognise the market for special needs policies, and to develop new products to meet such needs. This gave it a head-start over other general insurers and contributed to the premium growth rates. Some of the special needs policies were foreign maid's insurance, retailer's package and rental guarantee, pet insurance, education policies, and home renovation insurance.

INCOME'S SHAREHOLDERS

By December 1999, INCOME, the Cooperative, had 91 institutional members, the majority of which were trade unions affiliated to the NTUC. The NTUC

¹⁰ Interview between NTUC Income CEO Tan Kin Lian and the authors in July 2000.

¹¹ NTUC Income website. Retrieved July 15, 2000, from <http://www.income.com.sg/insurance/glannuity.asp>

as the founder member of INCOME, held 961,335 shares (at S\$10 per share) or 22.74 percent of the total institutional shares. The Singapore Labour Foundation, established by an Act of Parliament in 1977 to improve the welfare of union members and further the development of the trade union movement, held another 22.3 percent. Five unions representing the transport, marine, airlines and electronics industries, together held another 27.4 percent. (See **Exhibit 3** for the breakdown of INCOME's institutional membership base.)

According to Tan, all life policyholders were also considered to be members of INCOME but did not share the same voting rights as institutional members:

We expect more individual policyholders to contribute to our share capital. The dividend rate is limited by law to a maximum rate of 10 percent. In past years, we paid six percent. We are allowed to give bonus shares. The average rate of distribution is 15 percent in five years or three percent per year. The combined return to our shareholders is about nine percent per annum which is quite attractive, but not excessive.¹²

In 2000, 47 percent of INCOME's share capital was held by 6,900 individual policyholders. The average holding was S\$5,000 per policyholder with a cap (set by INCOME) of S\$10,000 per policyholder.

GOVERNANCE AND MANAGEMENT

INCOME's governance and management structures reflected the twin goals of its founders and major stakeholders. The strong orientation towards the social goals of the union movement had to be balanced with the need for professionalism and managerial talent to lead and run the insurance operations. The underlying premise was that union-sponsored cooperatives should be self-sustaining and financially viable.¹³

INCOME's top governing body was its Board of Trustees. In March 2000, the board was chaired by

Minister for Manpower, Dr Lee Boon Yang. With this, Dr Lee was following a tradition set by Dr Goh Keng Swee, who was appointed by NTUC as life trustee and chairman of the Board of Trustees in 1970. Other trustees included Members of Parliament and senior trade unionists. (See **Exhibit 4**.) The high level of government representation reflected the degree of support for INCOME and recognition of the Cooperative's social and economic role in the Singapore community.

INCOME's Board of Directors set the strategic directions for the Cooperative, and members were drawn mainly from trade unions, which were institutional members of the Cooperative. (See **Exhibit 5**.)

SENIOR MANAGEMENT TEAM

In 2000, the senior management team was led by CEO Tan. Tan left school at 16 due to family circumstances but was determined to qualify as an actuary, a goal he achieved in 1975, two years before he joined INCOME.

When Tan joined INCOME in 1977 as General Manager, he saw upgrading operations as essential to improving productivity and service quality, and to maintaining low operational costs so as to move the Cooperative to the second phase of growth. He targeted on increasing efficiency through better work methods and systems. Under his leadership, INCOME moved to the forefront in IT adoption and innovation:

INCOME was adopting 'prototyping' in its IT applications even before the term was coined. In prototyping, only 70 percent of the information is required beforehand. The remaining 30 percent is developed over time.¹⁴

As INCOME's CEO and actuary, Tan led the local insurance industry in designing innovative products. In the 1980s, INCOME was the first to introduce annuity products with participating contract (that is, with potential bonus payment in addition to annuity income) and a 15-year guaranteed return - an initiative that created a new market for the local life

¹² Interview between NTUC Income CEO Tan Kin Lian and the authors in July 2000.

¹³ Goh Keng Swee (1995). Speech delivered on 18 November 1969 at the National Trades Union Congress delegates' seminar on "Modernization of the Labour Movement" at the Singapore Conference Hall. In *The economics of modernization* (p. 89-97). Singapore: Federal Publications.

¹⁴ Interview between NTUC Income CEO Tan Kin Lian and the authors in July 2000.

insurance business. The Cooperative also launched Incomeshield, which was the only competitor for a health insurance cover (Medishield) offered by the CPF.

Tan believed that being local helped INCOME stay ahead of its competitors:

The fact that we are a local company gives us the advantage as we don't have to wait for approval from an overseas head office. Whenever a need arises, we are able to respond to that need quickly and develop the product very fast.

Designing the products is not difficult especially when we know where the risk areas are and we understand the consumers' demands. Everything that we need from research to professional expertise in marketing the products are available to us locally.¹⁵

Tan was known to reply personally to policyholders who e-mailed him with queries or complaints, often on the same day. Perceived as INCOME's most well-known spokesman, Tan would personally give press statements or reply to official letters featured in the forum pages of the local English dailies.

Reflecting the hands-on management style of the CEO, at the senior levels, managers were expected to go beyond functional roles and participate in projects or issues that exceeded functional boundaries. In an organisation, which took great pains to be 'quick to respond', cross functions and work roles were a regular matter.

Tan's senior management team included Senior General Manager, Aloysius Teo, who joined INCOME in 1971. Then a teacher and union organiser for the teachers' union, Teo started working for INCOME part-time but was soon encouraged to join the Cooperative full-time.

After three exciting decades, I believe we are now in the most challenging moment of the new millennium...

Customers are much better informed and have wider choices. We see the merging of services and products across the different financial institutions. New business models are challenging old and established practices.¹⁶

Aloysius Teo
Senior General Manager

Three other members of the senior management team included Tan Soon Heng, General Manager (Field), Liong Tong Kap, General Manager (Investment), and Goh Cheng Chua, Assistant General Manager (Business Enterprise). They led a team of 18 middle managers, half of whom were women.

Thirty years after its founding, the twin goals of professionalism and social values remained a key challenge for INCOME's management. As the Cooperative competed for talent and ability in the marketplace, the Cooperative's management had to relax the criterion of recruiting based purely on the candidates' commitment to INCOME's social values. Tan said:

Instead, we try to educate [through instilling the values in] the new employees. The challenge is in Singapore's tight labour market, most employees are interested in personal issues (gains) rather than corporate responsibility. So, INCOME has to ensure that compensation is competitive. We educate our employees and agents constantly on these values. We want them to feel proud to be working in such an organisation that is different from others.¹⁷

WORKFORCE ORGANISATION

Marketing and Sales Force Organisation

In 2000, INCOME relied on a network of 4,000 part-time sales agents and 800 full-time sales and marketing personnel called Development Officers (DOs).

¹⁵ ibid.

¹⁶ Interview between Aloysius Teo and the authors in May 2000.

¹⁷ Interview between NTUC Income CEO Tan Kin Lian and the authors in July 2000.

There were two types of sales agents:

- (i) tied agents who sold only INCOME products and contribute about 95 percent of life business (life products were 'sold') and 25 percent of general and health insurance products;
- (ii) independent agents who represented up to two other insurers besides INCOME. They contributed about 51 percent of INCOME's general insurance business (general policies were 'bought').

The Cooperative also operated an office network of seven branches in key suburban centres. These branches served two key functions - they provided convenient retail points for walk-in customers to make inquiries and to purchase policies, and they provided sales and marketing agents and DOs with administrative support and resources. The branch offices were run by field executives and branch managers, who were full-time employees of INCOME.

In the 1990s, the part-time sales force profile expanded to include retirees, housewives, school teachers, receptionists, engineers as well as civil servants.¹⁸ However, over the same period, the sales contribution from the part-timers declined to 32 percent of the premiums.

On the other hand, the sales contribution of DOs increased steadily throughout the 1980s and 1990s. INCOME started recruiting full-time DOs (who were paid monthly salaries) in 1980. A few years later, it revamped the fixed salary compensation package to one based on sales commission. However, some fringe benefits were retained such as the employer's contributions to the employee's Central Provident Fund, annual leave, medical benefits and productivity-based quarterly incentive bonuses. Since then, the contribution of DOs as part of total sales increased and, by end-1999, DOs contributed 60 percent of annual premiums sold.

However, rapid changes in the business environment were pushing the Cooperative to re-examine the single-tier sales agency system it had operated for over 30 years. In 2000, Tan was considering whether INCOME should experiment with a two-tier system to attract, motivate and groom promising and ambitious

agents. The aim was to provide opportunities for the successful ones to rise to the level of a unit manager and to take charge of other agents.

This implied that team managers could receive overriding commissions on policies written by team members. INCOME's distribution costs should, consequently, increase if the overriding commissions exceeded the current expenses from supervision.

Another concern was the impact on INCOME's part-time sales force of new regulations coming into effect on 1 January 2001. These regulations required all insurance agents in Singapore to undergo at least 30 hours of professional training each year. According to CEO Tan:

About half of our part-time agents will probably find the compulsory training a burden. They are likely to drop out. My guess is that the number of agents [in INCOME] will decline to 2,500 from 4,000 now.¹⁹

In an address to INCOME's top 500 sales agents in April 2000, the CEO assured tied agents that the Cooperative would not take measures that could affect their livelihoods, but that INCOME would have to modify its strategy to respond to the environment. In the past, it was enough for INCOME sales agents to rely on the union network and social relationships to sell policies. With the entry of banks with their branch networks and ready customer base, this might not suffice.

VALUES AND CULTURE

As a union-owned cooperative, INCOME identified closely with the values, missions and goals of the NTUC. Its history and development reinforced this identity, given the key role union leaders, activists and members played in building up INCOME in its first decade of operation:

When INCOME started 30 years ago, what we had were trade unionists and committed volunteers. All had one common quality: an undying sense of enthusiasm and commitment to

¹⁸ Civil service regulations did not permit government employees to sell insurance policies of commercial firms. As a cooperative, INCOME was exempt from this regulation.

¹⁹ Raising the curtain on agents' commission. (2000, October 1). *The Straits Times*, Singapore.

*INCOME's social objectives of trust and care.*²⁰

*Tan Soo Heng
General Manager*

*I am proud to have been part of INCOME's team since the pioneering 1970s. Ecstatic, too, to see it grow into one of Singapore's leading insurance corporations, yet remaining true to its original social objective of bringing the benefits of insurance at the lowest possible cost to every strata of our society.*²¹

*Aloysius Teo
Senior General Manager*

With NTUC-affiliated union leaders strongly represented in both its Board of Trustees and Board of Directors, the basic philosophy and organisational values guiding its operations were intertwined with those of the union federation:

*During the height of the economic crisis, [INCOME] worked out a \$11.5 million financial relief package in the form of lower interest for mortgage loans and policy loans. It has also been quick to respond to national needs and concerns...I am confident that the cooperative movement of the NTUC, including INCOME, will continue to play an important role in improving the quality of life of Singaporeans and stabilising market prices.*²²

*John De Payva
President, National Trades Union Congress
Member, Board of Trustees*

INCOME's self-image was one of a cost-conscious organisation with a strong social mission. In the beginning, when it entered the insurance business, keeping costs low was of paramount importance in order to be competitive and survive as a viable entity. Thirty years later, the Cooperative took great pride in the fact that its expense ratio was consistently the lowest in the industry.

The value of thrift extended over many areas. While cheerful and pleasant, the Cooperative's head office and dining hall were distinctly utilitarian and without frills. A new logo design was launched in 2000, the result of a logo competition where the winner was presented with an Apple iBook and a cash prize of S\$1,000.

The Cooperative's CEO articulated the value of cost-effectiveness with regard to its IT policy. To him, IT investments did not have to be large-scale in order to be effective - low-cost IT could generate substantial productivity gains just as well. To avoid cost escalation and long delays in implementation, computerisation projects were carried out in stages. By so doing, the Cooperative avoided the problem of designing a complicated system that was costly and hard to maintain. Whenever possible, IT applications were designed and implemented in-house by the IT department.

In its early days, INCOME tapped on the experiences of fellow member organisations of the International Cooperative and Mutual Insurance Federation (ICMIF), especially Folksam, Sweden. Thirty years later, the INCOME experience had become a model for insurance cooperatives all over the world:

*Today, [INCOME] is an insurer which, in several avenues of activities, has taken the lead and is an example of best practices...Today, others learn from NTUC Income!*²³

*Hans Dahlberg
Chief Executive Officer
ICMIF*

Mindful of the exhortations of its founding chairman, Dr Goh Keng Swee, INCOME kept to his exhortations of professionalism and financial prudence. Almost 30 years later, in November 1999, the international financial ratings agency, Standard & Poor's, gave INCOME an AA long-term counterparty credit and insurer financial strength rating (the highest for a Singapore-incorporated organisation and the best for an Asian-owned insurer outside Japan). According to Standard & Poor's:

20 NTUC Income. (2000). *NTUC Income celebrates 30th anniversary: 30 years, 30 voices*. Singapore.

21 *ibid.*

22 *ibid.*

23 *ibid.*

The ratings are based on the company's excellent franchise and business position in the Singapore insurance market, strong operating performance, and conservative balance sheet structure, as characterised by very strong capitalisation, prudent reserving practices, high asset quality, and sound reinsurance arrangements.²⁴

LIBERALISING THE MARKET FOR INSURANCE PRODUCTS

The liberalisation of Singapore's insurance industry in January 2001 was expected to attract new players to the market. INCOME and other insurers could expect strong competition from banks and other newcomers. For banks, liberalisation presented an opportunity to bundle a range of investment products with conventional life assurance policies, giving them a competitive edge over the products marketed by life insurers.

Global trends in tax incentives for pension insurance and retirement savings plans had increased the sales of life insurance at the expense of traditional bank savings. With liberalisation, banks could be expected to enter the insurance field to recover lost ground through what was referred to as 'bancassurance'.²⁵

It was expected that new regulations due in January 2001 which stipulated that insurance agents conduct 'fact-finding' exercises before they sold policies, could affect INCOME's part-time agency force. Finding out about the client's financial position, risk tolerance and investment objectives required in-depth financial analysis which might be beyond the competencies of some of these agents. Furthermore, agents who failed to adopt the fact-finding procedure could face regulatory action.

From early 2001, government regulators would issue licenses to qualified individuals as Independent Financial Advisors (IFA) to sell financial products, including investment-linked insurance products, and offer financial planning services. With an IFA, the client could receive advice on a wide range of

financial products offered by multiple vendors rather than be tied to just one.

Meanwhile, the other three top life insurers in the Singapore market were gearing themselves to face the new business environment.

In November 2000, Great Eastern (GE) Life, Singapore's leading life insurer in terms of premium income, merged with sister company, Overseas Assurance Corporation (OAC) to create a S\$4.3 billion insurance company (GE Holdings). The merger was part of the the parent company, Oversea-Chinese Banking Corporation's plan to turn GE into 'a financial services powerhouse'.²⁶

In June 2000, another leading life assurance company in Singapore, American International Assurance (AIA) introduced HealthShield, its answer to Medishield and Incomeshield. Within the first four months, AIA sold 150,000 HealthShield policies. One-third of these were bought by first-time customers of AIA. Acknowledging that competition would grow stiffer with financial liberalisation, the insurer planned to focus "not on selling products but on financial solutions, providing help for retirement or children's education".²⁷

AIA's General Manager, Stephan Rajotte was clear that local insurers had to upgrade their sales force:

We must increase the professionalism of our industry. If one agent has a bad image, everyone gets a bad image and it's not working. Our competitors are not the insurance industry. It's the Citibanks of this world.²⁸

In INCOME's 1999 annual report, Chairman Ng Pock Too outlined the Cooperative's strategy to move ahead:

With the liberalisation of the financial services industry, we expect greater competition in the years ahead from new and foreign players. We will increase our business focus towards the needs of the ageing population, new channels of distribution and our capability in asset management.

²⁴ S&P upgrades NTUC Income to AA. (1999, November 11). *The Business Times*, Singapore.

²⁵ While there was as yet no clear-cut definition of bancassurance, it referred to various forms of cooperation among financial institutions to leverage on distribution networks and cross selling of products.

²⁶ GE aims for \$3.3b in premium income. (2001, January 10). *The Straits Times*, Singapore.

²⁷ Serious about service. (2000, October 6). *The Business Times*, Singapore.

²⁸ 888 is enough. (2000, October 6). *The Business Times*, Singapore.

One constant in the sea of change as INCOME moved into the 21st century was the Cooperative's social mission. Tan commented:

What drives other insurers may not drive INCOME because INCOME is not investor-driven. The Cooperative's values are the main driving force for the past 30 years and INCOME's cooperative status is its greatest asset and a differentiating factor. [This status is] more and more important in recent years as the market is getting more competitive and competitors could offer products that make them look better than INCOME. However, INCOME wants to sell products that are consistent [to all its customers] over time and gimmick-free.²⁹

Tan also set the target for INCOME in the next five years - 20 percent market share to be achieved in life insurance and 15 percent in general insurance. By the end of 1999, according to Tan, INCOME had achieved 16 percent of the life insurance market and 10 percent of the general insurance market.

In 2000, INCOME celebrated its 30th anniversary. In his address as the Guest-of-Honour at the anniversary dinner, Prime Minister of Singapore, Goh Chok Tong, congratulated INCOME on its role in pioneering products catering to the needs of the people, upgrading the skills and professionalism of agents, and developing new business models and strategies. He reminded the Cooperative "not to forget its first constituency (those in the lower income bracket) even as [it expanded its] business to other segments of the population".

²⁹ Interview between NTUC Income CEO Tan Kin Lian and the authors in July 2000.

EXHIBIT 1**TOTAL PREMIUM OF INSURER AS A PERCENTAGE OF TOTAL PREMIUM OF INDUSTRY**

Year	AIA	Rank	GE	Rank	INCOME	Rank	PRU	Rank	The Four Insurers
1986	25.25	2	32.71	1	12.76	3	9.42	4	80.14
1987	24.87	2	33.78	1	13.13	3	9.96	4	81.73
1988	25.79	2	33.16	1	13.69	3	9.90	4	82.55
1989	26.15	2	31.65	1	14.55	3	11.03	4	83.39
1990	25.94	2	29.86	1	15.34	3	13.41	4	84.56
1991	26.82	2	30.13	1	15.91	3	11.65	4	84.50
1992	26.05	2	29.96	1	16.24	3	12.63	4	84.88
1993	24.96	2	30.61	1	15.65	3	14.19	4	85.42
1994	24.21	2	21.54	1	16.19	3	14.43	4	86.37
1995	23.76	2	32.58	1	15.41	3	14.40	4	86.15
1996	24.18	2	32.19	1	15.37	3	14.45	4	86.20
1997	25.02	2	28.47	1	16.35	3	15.74	4	85.58
1998	26.17	2	28.62	1	17.29	3	13.53	4	85.62
1999	24.41	2	29.65	1	16.58	3	15.75	4	86.40

Source: Monetary Authority of Singapore

EXHIBIT 2
AGENCY-RELATED EXPENSE RATE
AGENCY-RELATED EXPENSES AS A PERCENTAGE OF PREMIUM INCOME FOR THE YEAR

Year	AIA	Rank	GE	Rank	INCOME	Rank	PRU	Rank
1989	1.65	2	3.55	4	0.00	1	2.82	3
1990	1.86	2	4.09	4	0.00	1	2.34	3
1991	1.85	2	4.79	4	0.00	1	3.94	3
1992	1.70	2	3.20	4	0.00	1	2.56	3
1993	1.57	2	2.89	4	0.00	1	2.07	3
1994	1.77	2	2.96	4	0.00	1	2.02	3
1995	1.76	2	2.99	4	0.00	1	1.82	3
1996	1.53	3	3.25	4	0.00	1	1.51	2
1997	1.44	3	2.11	4	0.03	1	1.30	2
1998	1.48	3	1.16	2	0.04	1	1.67	4
1999	1.17	4	0.46	2	0.02	1	1.04	3

Source: Monetary Authority of Singapore

EXHIBIT 3

INSTITUTIONAL MEMBERS OF NTUC INCOME (AS AT 31 DECEMBER 1999)

	<u>Number of Shares (\$10)</u>
National Trades Union Congress	961,335
Singapore Labour Foundation	656,000
United Workers of Electronic & Electrical Industries	272,181
Singapore Bank Employees' Union	170,074
National Transport Workers' Union	152,253
Singapore Maritime Officers' Union	109,146
Singapore Airlines Staff Union	100,191
Amalgamated Union of Public Employees	92,392
NTUC Fairprice Co-op Ltd	89,010
Singapore Manual & Mercantile Workers' Union	78,840
Singapore Shell Employees Union	75,505
Singapore Organisation of Seamen	68,310
Shipbuilding & Marine Engineering Employees' Union	66,867
Metal Industries Workers' Union	61,352
Union of Telecoms Employees of Singapore	52,215
United Workers of Petroleum Industry	48,091
Singapore Teachers' Co-op Soc Ltd	37,778
Chemical Industries Employees' Union	32,211
Singapore Airport Terminal Services Workers' Union	32,017
Food, Drinks & Allied Workers Union	31,491
Singapore Industrial & Services Employees Union	29,253
Singapore Port Workers Union	27,997
Singapore Police Co-op Society Ltd	25,000
Singapore Shell Employees Union Co-op Ltd	23,850
Singapore Insurance Employees' Union	23,653
Union of Power & Gas Employees	23,477
Singapore Statutory Boards Employees' T & L Soc Ltd	22,970
Singapore Press Holdings Employees' Union	21,819
Natsteel Employees Union	21,229
Food & Beverage Industrial Workers' Union	20,590
Health Corporation of S'pore Staff Union	20,231
Keppel FELS Employees Union	20,127
Citiport Credit Co-op Ltd	20,000
Temasek Polytechnic Co-op Society Ltd	20,000
Singapore Urban Redevelopment Authority Workers' Union	18,546
Customs & Excise Co-op T & L Soc (S) Ltd	18,369
Staff Union of NTUC - ARU	18,018
Singapore Mercantile Co-op T & L Soc Ltd	17,595
Singapore Teachers' Union	16,207
AUPE Multi-Purpose Co-op Soc Ltd	16,100
NTUC Co-op Dental Care Soc Ltd	15,525
Singapore Bank Officers Association	15,038
Singapore Public Works Employees Credit Co-op Soc Ltd	15,000
Telecoms Credit Co-op Soc Ltd	13,000
HDB Staff Union	12,991
POSB Employees Union	12,610

EXHIBIT 3
(CONTINUED)

INSTITUTIONAL MEMBERS OF NTUC INCOME (AS AT 31 DECEMBER 1999)

	<u>Number of Shares (\$10)</u>
Air-Transport Executive Staff Union	12,031
NTUC Media Co-op Ltd	11,200
NTUC Childcare Co-op Ltd	10,600
UTES Multi-Purpose Co-op Soc Ltd	10,450
Changi International Airport Services Employees Union	10,304
PUB Staff Union	10,289
Singapore Union of Broadcasting Employees	10,151
Sembawang Shipyard Employees Union	10,054
Singapore Petrochemical Complex Employees Union	10,000
Straits Times Press Co-op T & L Society	10,000
Textile Industries Workers' Union	8,874
Singapore MRT Employees' Union	8,661
PUB Daily Rated Employees Union	8,582
Keppel Services Staff Union	6,814
Singapore Stevedores Union	5,990
Union of Mobil Employees	5,439
Union of ITE Training Staff	5,350
Industrial & Services Co-op Society Ltd	5,000
Singapore Polytechnic Co-op Ltd	4,399
Singapore Air Transport Workers Union	3,356
Keppel Employees' Union	3,212
Building Construction & Timber Industry Employees Union	3,093
Jurong Shipyard Multi-Purpose Co-op Soc Ltd	2,500
Ngee Ann Polytechnic Academic Staff Union	2,500
Singapore Government Staff Credit Co-op Soc Ltd	2,300
Amalgamated Union of Stat Board Employees	2,097
Union of Security Employees	1,898
Singapore Bank Employees Co-op T & L Soc Ltd	1,610
Amalgamated Union of Public Daily Rated Workers	1,570
Singapore National Union of Journalists	1,380
Inland Revenue Authority of S'pore Staff Union	1,038
NTUC Healthcare Co-op Ltd	1,030
Singapore Tamil Teachers' Union	1,003
Catholic Social & Welfare Workers' Co-operative	1,000
PUB Employees Co-op Ltd	1,000
Singapore Ceylon Tamils Co-op T & L Society	1,000
Times Publishing Group Employees' Union	1,000
Port Officers Union	627
Sime Darby Employees' Union	478
Singapore Interpreters & Translators' Union	274
Singapore Refining Companies Employees' Union	36
Race Course General Employees' Union	29
ST Electronic & Engineering Employees Union	23
Singapore Malay Teachers' Union	15
NTUC Club Staff Union	12
Kindergarten and Childcare Centres Staff Union	7
Productivity & Standards Board Staff Union	4

EXHIBIT 4

BOARD OF TRUSTEES OF NTUC INCOME (AS AT 1 MARCH 2000)

Chairman

Dr Lee Boon Yang
Minister for Manpower

Secretary

Tan Kin Lian
CEO, NTUC Income

Members

Ng Pock Too
Chairman, Board of Directors, NTUC Income
Member, Board of Trustees, NTUC Healthcare Co-operative Ltd
President, Sundstrand Asia Pacific

David T.E. Lim
Minister of State (Defence and Information and the Arts)

Dr Yaacob Ibrahim
Parliamentary Secretary (Communications and Information Technology)

John De Payva
President, National Trades Union Congress

Alan F.C. Choo

Oscar Oliveiro
Former President, National Trades Union Congress

Source: NTUC Income. (2000, March). *NTUC Income Annual Report 1999*. Singapore.

EXHIBIT 5

BOARD OF DIRECTORS OF NTUC INCOME (AS AT 1 MARCH 2000)

Chairman

Ng Pock Too
Member, Board of Trustees, NTUC Healthcare Co-operative Ltd
President, Sundstrand Asia Pacific

Deputy Chairman

Matthias Yao
Deputy Secretary-General, National Trades Union Congress
Minister of State without Portfolio

Members

Tan Kin Lian
CEO, NTUC Income

Cyrille Tan
General Secretary, United Workers of Electronic & Electrical Industries

Sat-Pal Khattar
Lawyer, Khattar Wong & Partners
Director, First Capital Corporation

Dr Michael Lim
Member of Parliament

Mrs Lim Hwee Hua
Member of Parliament
Senior Vice-President, Temasek Holdings

Foo Kok Swee
Former Singapore's Ambassador to Nigeria
Director of more than 25 organizations

Michael Chang
Executive Secretary, Singapore Bank Employees' Union

Paul Tan
General Secretary, Amalgamated Union of Public Employees

Victor Pang
General Secretary, Singapore Airport Terminal Services Workers' Union

Lt-Gen (Retired) Ng Jui Ping
Executive Chairman, Horizon.com
Former Chief of Defence Force, Singapore Armed Forces

Nithiah Nandan
Vice-President, National Trades Union Congress

Source: NTUC Income. (2000, March). *NTUC Income Annual Report 1999*. Singapore.