

An Open Letter to the MAS on the Sale of Income Insurance to Allianz Europe BV

To: Chairman, MAS Board, Mr Gan Kim Yong

Dear Chairman

1. This is an open letter to the MAS. The sale of a majority stake in NTUC Income to Allianz has been reported in the news as causing a “public outcry” and raising various concerns (see Mr Han Fook Kwang’s commentary of 1 August 2024 on Channel News Asia).
2. I wish to raise an even more important serious corporate governance issue which needs urgent attention. To fully appreciate this issue, I need to highlight two key events which are precursors to this sale: first, NTUC Enterprise (NE)’s obtaining shares in NTUC Income at a mere par value of \$10 per share from 2015 to 2020 and not the true economic or market value of the shares; and second, NTUC Income’s corporatisation in 2022. Important assurances were given on both occasions.
3. First, NTUC Enterprise (NE) injected \$630 million into NTUC Income from 2015 to 2020 in return for shares at a par value of \$10 per share. It did not pay the true market or economic value for those shares. In other words, NE obtained shares worth far more than the \$630 million it had injected into NTUC Income. Indeed, today, **NE can sell the shares at \$40.58 each**. The consequence of those capital injections was that NTUC minority shareholders at the time had their shares diluted. Indeed, as a result of those capital injections, NE's shareholding in NTUC Income increased very significantly from 30% in 2015 to 70% in 2020.
4. This was arguably defensible at the time because NE had committed not to redeem the shares in perpetuity. I was the Group CEO of NE at that time and played a significant role in assuring and persuading NTUC Income’s independent directors of NE's commitment, that NE would not redeem its capital (NE shares would be permanent). The purpose of NE making this commitment was to **safeguard the social mission of NTUC Income** in the long term. As an aside, there were also two other rationales at the time for the exercise, namely, improving NTUC Income’s financial position with the capital injection and also rewarding NE for enduring risk asymmetry i.e. NE

had to underwrite Income's financial position in adverse financial scenarios, whereas minority shareholders were not obliged to.

5. The argument at the time was that with NE's **increased shareholding in NTUC Income, NE would have greater moral authority to prevent mission drift by the social enterprise.**
6. Hence, as can be seen from the above, NE's commitment not to redeem the shares in perpetuity was fundamental to NTUC Income allowing NE to obtain shares in NTUC Income at par value (and not at market or the true economic value for the shares). This assurance helped NE increase its shareholding in NTUC Income from 30% to 70%, all at a mere par value of the shares.
7. Second, a serious concern to NE's commitment arose in 2022 when there was public concern over NTUC Income's corporatisation exercise. One needs to understand the difference between co-operatives and corporations. Unlike in corporations, shares in co-operatives can always be redeemed at book value and therefore cannot be counted as Tier 1 regulatory capital. In 2018, the government introduced new cooperative legislation to allow shares in cooperatives to be irredeemable (permanent), enabling them to be counted as Tier 1 regulatory capital. NE was a key player in persuading the government to enact this legislation. NE's share class was transferred to this category after the legislation was enacted.
8. When NTUC Income became a corporation in 2022, I was concerned that the laws governing corporations would not necessarily bind NE to its commitment to hold its shares in NTUC Income permanently, despite the assurance from NTUC Income in writing that NE was committed to a majority shareholding. There were commitments made by NE and NTUC Income in 2022 that NE would remain majority shareholder in the new corporation, both to the public and to me in writing. The corporatisation of NTUC Income raised the possibility that despite providing commitments to hold their investments permanently, NE could sell its shares in NTUC Income. Given this, I expressed my concerns about the corporatisation of NTUC Income (see my previous letter to MAS of 13 February 2022). I also previously quoted in that letter to MAS of 13 February 2022 from the letter sent to me by NTUC Income on 10 February 2022:

*“You have raised two further points in your latest letter. First, you mention the reference in our 19 January letter to **NE’s majority shareholding in Newco, and ask after the permanence of this.** ...*

*... On the first issue, **NE has publicly expressed its commitment to Income. It has confirmed that, notwithstanding the corporatisation, it will continue to be the majority shareholder of Newco,** and will continue to provide its financial and other backing to Income pursuant to its 2012 letter of responsibility, as required by the regulator, subject always to the interests of Income, which must remain paramount.” (emphasis added)*

9. My fears materialised with the recent news that a majority stake in NTUC Income would be sold to Allianz. Given the background outlined above, the sale of NTUC Income to Allianz is a disconcerting departure from NE’s commitment and aforementioned “confirmation” and in turn, a fundamental erosion of the social mission of NTUC Income.
10. It is clear that NE obtained very substantial shares in NTUC Income at par value with minority shareholders being diluted in the process and is now seeking to sell those very same shares at market value. How is NE going to account to the minorities for NE’s substantial windfall which was previously justified on the basis of its commitment to hold on to those shares permanently? In 2022, I argued that, to address this dilution, NE should share its very significant gains in obtaining the shares at a mere par value with minority shareholders who came before them, as NE was investing at \$10 per share when the value of the shares was multiple times that, thus diluting the economic interests of the minority shareholders. My argument was not directly addressed. Instead, assurances (quoted above) were given that NE would remain a majority shareholder of Income (after corporatisation) and this purportedly addressed the concerns I had raised.
11. Crucially, Allianz is a commercial profit-making entity. It is difficult to see how Allianz as a majority shareholder in control of NTUC Income is going to prioritise the social mission of NTUC Income over Allianz’s own profits. Indeed, I am not aware of any such binding commitment that has been given by Allianz to subordinate its profit motive to NTUC’s social mission.
12. In the last two weeks, I have felt deeply disappointed with the NTUC Enterprise and NTUC Income Boards because I took the assurances in 2022 in good faith.

13. I urge the MAS to comprehensively scrutinise the proposed sale of the majority stake in NTUC Income to Allianz in light of the above history and commitments given by NE. There is no question that the regulator's approval is required for the sale. Even NTUC Income has publicly stated that this approval is a pre-condition for the sale.
14. I ask this question: at what point in time was protecting the social mission of NTUC Income no longer an imperative? As citizens and NTUC members, we fairly deserve an answer.
15. As you can see from this turn of events, this is not merely about the sale of Income to Allianz, or only about the social mission of our cooperatives. At heart, it is about the integrity of commitments given by institutions on which we rely to safeguard our nation's economic well-being and citizens' interests.
16. Surely, we must rightly expect commitments to be kept and also that when there is a risk of departure from such public commitments, for the regulators to step in, investigate, and take the necessary action, all with full transparency in the process. It is in this spirit that I am writing this as an open letter to the MAS.
17. Thank you for your attention.



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