BROKEN ALLIANZ WITH INCOME

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Part 1: An Analysis of Income Insurance's Corporate Governance, Financial Reporting and Performance Before the Allianz Offer

Acknowledgements
Andrea Aw Zhi Yi, a senior law student from the Faculty of Law at the National University of Singapore, provided substantial support in the research and writing of the case. Shivam Kaushik, a postgraduate student in the same Faculty, assisted with editing. Any errors are the author's sole responsibility.

Case Overview

Allianz, a German insurance multinational, scrapped its bid to acquire at least 51% of Income Insurance (Income) for about EUR1.5 billion (S$2.2 billion) on 16 December 2024. The withdrawal followed public outcry and government intervention highlighting concerns that the acquisition would detract from Income's social mission to provide affordable insurance to lower-income workers. Previously a co-operative under the National Trades Union Congress (NTUC), Income became a corporate entity in 2022 purportedly for growth flexibility. In its corporatisation, Income received a ministerial exemption for about S$2 billion to be carried over to the new entity that would have otherwise gone to the general co-operative sector. The government stepped in to block the deal after an intention to reduce Income's capital and return S$1.85 billion in cash to shareholders came to light.

The first part of this two-part analysis discusses the history of Income Insurance, and its corporate governance, financial reporting, and performance leading up to its corporatisation and post-corporatisation. It raises questions about each of these areas and suggests significant room for improvement.

Introduction

Income is one of the leading composite insurers in Singapore, offering life, health and general insurance.[1] It pledges to put people first by serving the protection, savings and investment needs of individuals, families and businesses.[2]

Income has a unique history and role in serving Singaporeans. The notion of labour movement co-operatives, or social enterprises, first came about at NTUC's Modernisation Seminar in 1969, where Mr Devan Nair, who was then the adviser to NTUC,[3] explained the necessity for the labour movement to turn into a social institution to serve Singaporean workers in different ways.[4] Dr Goh Keng Swee, who was then Minister for Finance, urged NTUC to set up social enterprises in domains like life insurance and essential consumer goods to answer the needs of the working population.[5]

Income was established in 1970 under the name NTUC Income Insurance Co-operative Limited to plug social needs and extend essential insurance to people in Singapore.[6] NE, also a co-operative, was later set up in 2012 as a holding entity for the various social enterprises under the labour movement.[7] Over the years, Income played a pivotal role in providing affordable insurance for workers at large.

As at 31 December 2023, Income covered close to 1.7 million customers, with an ambition to serve 1 in 2 Singaporeans by 2025.[8]

Members of the Co-operative

As a co-operative, Income had three types of Members: Founder Member, Institutional Members and Ordinary Members. The Founder Member was the National Trades Union Congress (NTUC); Institutional Members were the "*Singapore Labour Foundation, trade unions and co-operative societies as may be accepted by the Board*"; and Ordinary Members were "*individual persons who hold an individual life insurance policy with the Co-operative or hold at least 10 Common Shares in the Co-operative or are such other persons who may from time to time be admitted at the discretion of the Board on such terms as the Board may decide and in accordance with the By-Laws of the Co-operative*".[9]

Director election rights

Even though NTUC only owned 10,000 shares (0.01%) which increased to 1,928,520 shares (1.95%) in FY2018 and then decreased back to 10,000 shares (0.01%) in FY2021, seven of the 12 directors on the Board in FY2021 were elected to represent the Founder Member (including the Chairman and Deputy Chairman), with another three elected to represent Institutional Members, and two elected to represent Ordinary Members.

Such an arrangement may pose challenges for directors in discharging their duties as they were elected to represent certain Members while owing fiduciary duties to the entity. Further, the board was dominated by directors who were representing the Founder Member which had a very small stake. The outsized right of the Founder Member to elect a majority of the directors is presumably to ensure that the board considers the interests of NTUC members in their decisions, rather than based on purely commercial considerations.

Common Shares and Permanent Shares

The share capital of Income as a co-operative comprised of Common Shares and Permanent Shares.

The rights associated with Common Shares and Permanent Shares are explained in the Annual Reports as follows:[10]

"<u>Common shares</u>

A Member of the Co-operative may attend and vote in person at any General Meeting of the Co-operative. Ordinary Members have one vote each, and Institutional Members and the Founder Member, each have a total number of votes equal to the number of Common Shares and Permanent Shares (if any) held.

An Ordinary Member who holds only Common Shares and does not hold any Permanent Shares may withdraw his Common Shares, on giving three months' notice in writing. The Board may at *its discretion and on such conditions as it deems fit, waive or vary the notice period and allow the withdrawal of the Common Shares at an earlier date.*

The Ordinary Member withdrawing shall be entitled on the expiry of his notice to receive as the value of his Common Shares the lesser of the nominal value of the Common Shares; and what they are worth as disclosed by the last audited statement of financial position prepared by the Co-operative.

Permanent shares
Permanent Shares are only issued to the Founder Member or any Institutional Members. Institutional Members may also convert their Common Shares into Permanent Shares.
Permanent Shares cannot be withdrawn and cannot be converted to Common Shares; but may be transferred with the approval of the committee of management of the society (this refers to the Board, in the context of the Co-operative) and in accordance with this Act and the By-laws of the society."

NTUC Enterprise's Increasing Stake
NE, an Institutional Member, had the largest stake when Income was a co-operative and became the largest Institutional Shareholder after corporatisation.

In FY2015, NE's stake in Income increased from 12,735,248 shares (29.0%) to 33,058,822 (51.7%) as a result of the issuance of new shares at S$10 per share.[11] As at the end of the previous financial year ending 31 December 2014, the net asset value (NAV) per share was S$55.40.[12] In FY2017, 33 million more shares were issued to NE at S$10 per share, increasing the number of shares NE held from 33,058,822 (50.3%) in FY2016 to 66,058,822 (66.9%) in FY2017[13]. As at 31 December 2016, NAV per share was S$42.09.[14] NE's stake eventually increased to 77,977,342 shares (71.6%) in FY2021 from further issuances of shares to NE at S$10 each.[15] Between FY2017 and FY2020, the average NAV per share was S$37.21.[16]

Until FY2017, Income only had one class of Common Shares. In FY2018, 66,058,822 of the Common Shares held by NE were converted to Permanent Shares.[17] This was following the introduction of the amended Co-operative Societies Act which "*stipulates that a society may issue* *a new class of shares called Permanent Shares, only to an institutional member and that the institutional member of a society may, with the written approval of the Registrar, subscribe, in accordance with the By-laws of the society, for permanent shares issued by the society".*[18]

Under the amended Act, *"Permanent Shares cannot be withdrawn and cannot be converted to Common Shares; but may be transferred with the approval of the committee of management of the society (this refers to the Board, in the context of the Co-operative) and in accordance with this Act and the By-laws of the society".*[19]

Income amended its By-laws to allow it to issue Permanent Shares and also convert Common Shares which were issued to Institutional Members, to Permanent Shares. Permanent Shares issued as a result of the conversion of the Common Shares rank *pari passu* in all respects with any existing Permanent Shares.[20]

In FY2020, Income issued an additional 10 million Permanent Shares to NE at S$10 each.[21] The NAV as at the end of FY2019 was S$39.01.[22] In FY2021, another 1,918,520 Common Shares held by NE were converted to Permanent Shares.[23]

The issuance of new shares to NE at S$10 per share between FY2015 and FY2020, which allowed NE's stake to be increased from 29.0% in FY2015 to 71.6% in FY2021, severely diluted Ordinary Members as they were all well below the prevailing NAV per share at the particular time.

Corporatisation Exercise

In 2022, Income embarked on a corporatisation exercise to change its legal form from a co-operative governed by the Co-operative Societies Act (CSA) to a company to be governed by the Companies Act.[24] The existing co-operative shareholding profile was replicated in the shareholding profile of the new corporate entity, and the members of the co-operative received *pari passu* distribution in specie of shares in the new entity.[25]

The rationale given for the corporatisation was to better enable Income to meet tightening regulations for financial institutions which necessitated a strong capital base.[26] The co-operative structure was said to face limitations and was deemed not conducive to stronger capital access and strategic partnerships.[27] In the face of increasing global competition, Income said it needed a corporate structure to put it on par with competitors.[28]

Nevertheless, Income pledged to remain committed to its purpose, promising S$100 million over 10 years to sustainability causes, including environmental and social ones.[29] It assured that corporatisation would have no impact on Income's policyholders, distribution channels, business partners, organisational structure and business operation, serving to only change Income's legal form.[30]

The corporatisation exercise was completed on 6 April 2023.

As at 31 December 2023, NE owned about 72.8% of Income, with another 22 institutional shareholders which are co-operatives owning about 1%, and 15,835 individual shareholders owning the remaining 26.2%.[31] The full list of institutional shareholders is shown in Appendix 1.

Exemption from Section 88 of the CSA

As part of corporatisation, Income sought an exemption from Section 88 of the CSA, which applies when a co-operative is put into liquidation.[32] Under this section, when a co-operative ceases being a co-operative and is wound up, its members can only be paid their original share capital plus any unpaid dividends up to a cap, after settling the costs of liquidation and the co-operative's liabilities. Any surplus funds in the co-operative would be transferred to the Co-operative Societies Liquidation Account to be applied for the benefit of the co-operative sector generally.

The reason for the exemption application was that in substance, Income was not being liquidated but was merely changing its legal form and would continue to be engaged in the same business.[33] Thus, Income submitted that the exemption was needed to facilitate corporatisation so that its accumulated surplus (beyond par value) could be carried over to the new corporate entity for the continuity of business.[34] The government granted the exemption and was of the view that the carrying over was an integral part of corporatisation to strengthen Income's capital base and financial adequacy.

Income's retained earnings were all converted to share capital in the new corporate entity. Income thus carried over about S$2 billion to the new corporate entity.

To continue providing an annual payout to shareholders for FY2022, Income further sought approval from the MAS to reduce its share capital by about S$43 million.[35] Income submitted that this was necessary because "*FY 2022 was a transition year where Income changed its legal form, and had all retained earnings in the co-operative converted to share capital in the new corporate entity*".[36]

Income reported a profit after tax attributable to shareholders of S$59.9 million for the 18 months from 1 July 2022 to 31 December 2023 (referred to as Financial Period 2023 ("FP2023") henceforth since it is for 18 months). It did not report results for the period from 13 October 2021 (the date of incorporation of Income as a company limited by shares) to 30 June 2022. This is discussed further later.

Figure 1 shows the accounting impact of the capitalisation of the accumulated surplus and capital reduction in Income's consolidated statement of financial position and consolidated statement of changes in equity in Income's FY2021 and FP2023 annual reports.

Figure 1: Capitalisation of accumulated surplus and capital reduction[37]

Statement of financial position (S$000)	**FY2021**	**FP2023**
Share capital	1,088,879	3,203,821
Accumulated surplus	3,164,790	57,699
Total equity	4,359,902	3,167,869

Statement of changes in equity ($000)	**FP2023**
Share issuance	3,246,821
Capital reduction*	(43,000)

* Capital reduction exercise to return capital of 40.115 cents per share amounting to $43 million to shareholders without cancellation of any shares, effective on 14 August 2023.

Source: Income's FP2023 annual report

It is unclear from the financial statements as to why total equity fell from S$4.36 billion pre-capitalisation in FY2021 to S$3.17 billion post-capitalisation in FP2023 as the major change should merely shift the accumulated surplus to share capital due to the capitalisation of the surplus. There is a lack of visibility on what caused the apparent decline in accumulated surplus which was capitalised, resulting in the significant decrease in total equity post-corporatisation.

The payout to shareholders for FY2022 was deemed consistent with the ordinary course of business as NTUC Income had distributed dividends to its members in previous years prior to corporatisation.[38] Both the total quantum and amount per share in FY2022 were lower than what NTUC Income had paid out in annual dividends in the prior five years.[39]

In view of the above, MAS granted approval for Income's capital reduction of $43 million.

Financial Performance and Capital Management

Figure 2 shows several key financial performance indicators for Income from FY2018 to FP2023. Gross premiums increased until FY2021, while profitability and return on equity declined from FY 2021. Results for the 18 months from 1 July 2022 to 31 December 2023 (FP2023) show a significant deterioration as gross premiums for the 18 months were only 5.5% higher than for FY2021, and all the indicators show a significant deterioration, although Income remained profitable every year.

Figure 2: Financial performance of Income[40]

S$000	**2018**	**2019**	**2020**	**2021**	**2023 (18 months)**
Gross premiums	3,631,919	3,941,234	4,261,065	4,604,638	4,857,797
Net operating surplus/PBT	170,581	326,052	374,465	169,787	98,681
Net surplus/PAT	154,430	312,073	376,043	161,833	60,387
Total comprehensive income/loss	126,935	363,843	387,220	159,318	-35,050
Net operating cash flows	632,069	-521,435	1,292,069	1,091,561	-1,233,186
Return on equity	4.38%	8.09%	8.82%	3.71%	1.91%

Net assets as at 31 December 2023 stood at about $3.18 billion and the debt-to-total assets ratio was 0.93.

In the Letter to Shareholders in Income's FP2023 Annual Report, it was stated: "The latter half of 2022 and 2023 was a challenging period. We faced unprecedented interest rate hikes during the second half of 2022 and ongoing inflationary pressures and geopolitical tensions that exacerbated macro-economic uncertainties, which extended throughout 2023. Overall, the company's gross premiums over the period were $4.9 billion reflecting a strong in-force book and the benefits of a composite business portfolio…The confidence in Income Insurance remains high post-corporatisation. S&P Global Ratings continues to rate Income Insurance 'AA-' with a stable outlook, a credit rating that we have held since 2009. It marks the continued confidence in our financial strength, solid business position in Singapore and our growth opportunities regionally…Our Capital Adequacy Ratio remains well above the minimum regulatory levels and underscores our strong competitive position and diversified business mix".[41]

It is puzzling that gross premiums of S$4.9 billion for an 18-month period were said to reflect "a strong in-force book" when gross premiums for the 12 months ending 31 December 2021 were S$4.6 billion, and unclear why gross premiums appear to have fallen significantly in 2022 and 2023. On 30 July 2024, the statement released by NE supporting the proposed Allianz acquisition did mention about losing out on major contracts despite competitive bids. [42]

In my view, Income should have explained the causes of the deterioration in financial performance in 2022 and 2023 and the steps it was taking to address them.

The Notes to the financial statements for Income in the FP2023 Annual Report states: "The Group's capital management focuses on three key relevant capital ratios: the Capital Adequacy Ratio ("CAR"), the Participating Fund Solvency Ratio ("Par FSR") and the Tier 1 Capital Ratio ("Tier 1 Ratio"). The CAR, Par FSR and Tier 1 Ratio of the Group remains well above the solvency requirements."[43]

A Change in Year End, a Reporting Gap and Lack of Transparency

Income's last annual report as a co-operative was the FY2021 Annual Report for the year ending 31 December 2021. The FP2023 Annual Report was Income's first annual report post-corporatisation. The report covered the reporting period from 1 July 2022 to 31 December 2023. In the Independent Auditors' Report, the following statement was included under "other matters":

"The financial statements for the period ended 30 June 2022 were unaudited. The Company had applied the exemption from duty to prepare financial statements and was exempted from audit under Section 201A and Section 205B of the Act respectively for the period ended 30 June 2022.

On 19 December 2022, the Company obtained approval from the Accounting and Corporate Regulatory Authority to change its financial year end from 30 June to 31 December. The change of financial year results in the second financial year covering period from 1 July 2022 to 31 December 2023."

Income's financial year-end prior to corporatisation was 31 December. It appears that when it incorporated as a company, it selected 30 June as the year end which was different from its year end as a co-operative, and then applied to change it back to 31 December. Income did not report any financial results for the period from 1 January 2022 to 30 June 2022. It is unclear why 30 June was chosen as the year end when 31 December was the year end all along, and then was changed back, as appears to have happened based on the company's disclosures.

Income was exempted from preparing and presenting audited financial statements for its first financial year covering the period from 13 October 2021 (its date of incorporation) to 30 June 2022.[44]

As mentioned earlier, total equity was S$4.36 billion as at the end of 31 December 2021 (its last year of reporting as a co-operative) but was only S$3.17 billion by the time it reported for the first time as a company at the end of the 18-month period ending 31 December 2023. The sum of its share capital and accumulated surplus at the end of 31 December 2021 was S$4.28 billion but the share capital at the end of 31 December 2023 was only S$3.2 billion after the capitalisation of its entire accumulated surplus.

It is odd that Income did not have to present audited results for the period from 13 October 2021 to 30 June 2022.

Income shareholders questioned the fall in NAV per share at the first Annual General Meeting that Income held post-corporatisation on 17 May 2024. The minutes stated: *"Shareholder 3…sought clarification on the significant decline in NAV from S$40 to S$29.95 since the end of 2022."*[45] The answer from the CEO was: *"…NAV was impacted by realised and unrealised losses on investments due to fluctuations since 2021, some of this was recognised in the financial statements of the previous Co-operative prior to the transfer of the business. In addition, the capital reduction exercise in August 2023 also contributed to the decrease in NAV"*.[46]

Another shareholder also questioned this: *"Shareholder 6 questioned why the substantial NAV drop from S$40 at the end of 2021 to S$29 was not prominently highlighted in the Annual Report."*[47] This is what the minutes said: *"The CFO reiterated the CEO earlier comment that the reduction in NAV per share arising from the impact of interest rate volatility had been recognised in the former Co-operative. The current periods profit [sic], which included realised and realised gains [sic] during the period from interest rate movements, has been reflected in the closing NAV per share of the Company."*[48]

In my view, the answers from Income management lacked transparency. The NAV per share fell by a quarter as total equity fell from S$4.36 billion as at the end of 31 December 2021 (its last year of reporting as a co-operative) to S$3.17 billion at the end of 31 December 2023 (its first reporting period as a company). The amount recognised in the financial statements of the previous Co-operative prior to the transfer of the business was not disclosed in either the last annual report published as a co-operative for FY2021 or the first annual report published as a company for FP2023. Income was granted an exemption from the duty to prepare and audit the financial statements for the period ended 30 June 2022 under Section 201A and Section 205B of the Companies Act. No such financial statements can be found on Income's website. The capital reduction mentioned accounted for only S$43 million of the S$1.2 billion decline in total equity between 31 December 2021 and 31 December 2023.

So what contributed to the significant fall in NAV between the end of 2021 and the end of 2023? Management's answers to shareholders' questions at the May 2024 AGM provided a hint on the possible causes. CNBC called 2022 the "worst-ever year" for U.S. bonds largely due to the U.S. Federal Reserve raising interest rates aggressively, which saw a collapse in bond prices caused by the spike in interest rates.[49] The first six months were particularly bad, being described as the "worst 6 months ever" for financial markets.[50] Income's last set of published financial statements as a co-operative shows debt securities accounting for by far the highest allocation among "other financial assets".[51] In the FY2021 Annual Report, the Chairman's message in the Directors' Report acknowledged that the net operating surplus for that year "was lower, primarily due to fair value investment losses of our bonds which were impacted by higher interest rates and credit risk uncertainties".[52]

For the six months ended 30 June 2022, fellow insurer Great Eastern Holdings reported a "changes in fair value" of nearly S$7.2 billion, compared to a loss of S$388.8 million for the comparative six-month period in 2021.[53]

It therefore appears that the interest rate volatility mentioned by management likely contributed to a more than S$1 billion loss in the first half of 2022 that did not appear in any financial statements published by Income and was not fully explained by the board and management.

Over the two-year period from 31 December 2021 to 31 December 2023, Great Eastern had a roughly 21% drop in NAV while Income saw a drop of about 27%. New SFRS(I)s and amendments and interpretations of SFRS(I) came into effect on 1 January 2022. SFRS(I) 17 Insurance Contracts (which replaced SFRS(I) 4 Insurance Contracts) is a comprehensive new accounting standard for insurance and reinsurance contracts covering recognition, measurement, presentation and disclosure, and is expected to have a material impact on insurers' condensed consolidated financial statements in the period of initial application.

Income should have provided greater clarity to its shareholders on the 27% decrease in NAV - how much was due to losses and the nature of these losses, and how much was due to the application of new accounting standards.

Income shareholders deserve better transparency.

Board of Directors

The board of directors of Income as shown in the FP2023 Annual Report comprised 12 directors. All are non-executive directors as Income's CEO is not a member of the board. Appendix 2 shows the members of the board, their roles and date of appointment.[54]

Income's board is unusually large for an insurance company, even in comparison to insurance companies that are listed. For example, among Singapore listed insurance companies, Great Eastern Holdings has 10 directors while UOI has 7 directors. For Malaysia listed insurance companies with more than RM1 billion market capitalisation, LPI Capital has 6 directors, Allianz Malaysia has 8 directors, and MNRB Holdings has 7 directors. A 2024 study of all 33 listed and unlisted Malaysia insurance companies by me found that the largest board had only 9 directors. It is unclear why Income needed such a large board. In fact, its board size of 12 is exactly the same as the supervisory board of its much larger proposed acquirer, Allianz, which under Germany's co-determination law is required to have half of the board being made up of employee representatives.

Yet, with such a large board, Income still felt the need to retain Mr Kee Teck Koon, its former Deputy Chairman who stepped down from the board in 2023, as the Board Advisor.[55] Mr Kee was appointed to the Income board in June 2014. He is also Director and Board Advisor of NE, the major shareholder of Income, and holds several other directorships, including in listed companies. He retired as Chief Investment Officer of CapitaLand Limited in July 2009. After a 12-year career with the Singapore Armed Forces and Ministry of Defence until 1991, Mr Kee held senior management appointments with several organisations, including within the CapitaLand Group. Why does a 12-member board still need a board advisor?

Although 10 out of the 12 directors are independent, Mr Ronald Ong and Ms Adeline Sum, the only two non-independent directors, held the roles of Chairman and Deputy Chairman respectively. Mr Ong is non-independent because he is a non-executive director of NE. He is also a board member of NTUC FairPrice Co-operative Limited. Further, even prior to Morgan Stanley being appointed as the financial advisor for Income in the Allianz deal, Morgan Stanley has had a business relationship with Income at least since 2019, the year Mr Ong joined the Income board as a non-independent non-executive director**.** Income's Corporate Governance disclosures in its 2023 Annual Report states: "[Mr Ronald Ong] is a director of Morgan Stanley Investment Management Company with which the Company has a business relationship".[56] The 2019,[57] 2020,[58] 2021 Annual Reports also state that Mr Ong "is non-independent due to business relationship". [59] It did not state what the business relationship was for these years, but is not expected to since Mr Ong is not determined to be an independent director.

In the case of Ms Sum, she is non-independent by virtue of the fact that she is the CEO of NE.

In my view, for better corporate governance, Income should have appointed an independent Chairman who is not affiliated with its major shareholder, NE. However, Income appointed Ms Joy Tan, a partner at law firm, WongPartnership, as Lead Independent Director (LID) to compensate for the fact that the Chairman is non-independent.

The board of Income is made up of individuals with impressive credentials, with one-third of female directors, therefore having commendable gender diversity. However, it has a rather narrow mix of competencies for such a large board. Half the directors have a banking, investment and/or real estate background, one has a legal background, two have an accounting background, and one has a technology background. Two directors – Mr Robert Charles, an actuary by training with significant experience in consulting for the insurance sector, and Mr Charles Ellis, an accountant by training with extensive working experience in the insurance sector – have a strong insurance background. Ms Sum, the CEO of NE and Deputy Chairman of Income, has served within the NTUC network of organisations since 1993, worked on employee-related issues, and helmed several NTUC social enterprises.

Overall, for a social enterprise, there appears to be not much of a "social" component in the composition of the board, even though as one would expect, a number do serve in volunteer roles in not-for-profit organisations. This raises the question of the extent to which board decisionmaking adequately considers Income's social objectives. Would a less commercially-oriented board have supported Income's corporatisation and an acquisition by a commercially-focused acquirer like Allianz? Are there sufficient voices on the board to ensure that Income does not neglect its social objectives? Should the Chairman be independent, free from any business dealings, and be someone with a social enterprise background who would be seen to be able to foster a strong commitment to the insurer's social objectives?

I believe the Income board should review its composition to ensure that it is fit for purpose, by having a greater diversity of competencies and reduce the number of individuals having banking and investment backgrounds. Its large board size as a co-operative is likely a function of the rights of different Members to elect directors to represent their interests. It should now consider reducing its board size.

Allegiance and independence of directors

Income's board has gone through significant changes in composition. Appendix 3 shows the changes in board composition in the five years leading up to the proposed Allianz acquisition.

Prior to the corporatisation of Income, directors were elected to represent either the Founder Member, Institutional Members or Ordinary Members.

Although Income's annual reports published prior to the corporatisation state that all directors except three are independent - including those who are elected to represent the Founder Member, Institutional Members or Ordinary Members - I would argue that they should not strictly be considered independent if they were elected to represent a particular group of members. This is similar to a director in a listed company representing a substantial shareholder. Under the Insurance (Corporate Governance) Regulations 2012 (ICCR), a director would not be considered independent from a substantial shareholder if that individual is "accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the substantial shareholder."[60]

Among the 10 independent directors who are currently on the Income board, only two – Mr Craig Ellis and Mr Chew Sutat – were not elected to represent a particular group of Members prior to the corporatisation. Four of the remaining eight independent directors were previously elected to represent the Founder Member, two were elected to represent Institutional Members, and the remaining two were elected to represent Ordinary Members.

In my view, when Income corporatised and removed the election of directors to represent certain Members, it should have worked towards a significant restructuring of its board to appoint truly independent directors who were not previously appointed to represent certain Members.

Board committees

Under the ICCR which applies to Income, it is required to have an Audit Committee, Nominating Committee, Remuneration Committee and Risk Management Committee.[61] Income's Annual Report disclosed that it has six Board Committees – Audit; Investment; Risk Management; Nominating, Human Capital and Remuneration; Digital and Technology; and Sustainability Committees.[62]

However, according to the directors' biographies in the FP2023 Annual Report, there is a seventh Board Committee, a Board Executive Committee, chaired by the Board Chairman with six other members, including the Deputy Chairman and Lead Independent Director. This was not mentioned in the annual reports prior to corporatisation. Therefore, it appears that this was only established post-capitalisation.

The Corporate Governance section of Income's FP2023 Annual Report disclosed the duties and responsibilities, members, and attendance of each committee, except for the Board Executive Committee, which was not mentioned at all.

Why was there no disclosure about the Board Executive Committee in the Corporate Governance section of the FP2023 Annual Report? Although a Board Executive Committee remains popular amongst Singapore listed companies, it is often perceived to pose a risk of the board over-reaching into management decisions or functioning as a "board within a board", thereby undermining corporate governance. Without disclosure of its duties and responsibilities, there are concerns whether these corporate governance risks are created by having such a committee at Income.

To be clear, my view is that a Board Executive Committee may be justified in transitionary circumstances, such as where there is a new CEO. Perhaps the Board Executive Committee was established to help the board oversee the corporatisation of Income. It is unclear whether this committee will continue to exist going forward.

Directors' remuneration

Post-corporatisation, there was a substantial increase in non-executive directors' remuneration. For FY2021, a total remuneration of S$967,621 was paid to 13 directors (including a newly-elected director and a retired director who served for part of the year). Although Income disclosed the fee structure and actual remuneration paid to each non-executive director, the total actual remuneration did not require approval by members at the AGM held in May 2022. As a co-operative, members were only asked to "approve a resolution for the payment of honoraria to directors".[63]

In the next FP2023 annual report published by Income, the actual fees paid to each director was disclosed for the period from 1 July 2022 to 31 December 2022, with the total fees amounting to S$421,895, and for the period from 1 January 2023 to 31 December 2023, with the total fees amounting to S$1,205,915.[64] At the AGM in May 2024, shareholders were asked to pre-approve directors' fees of up to S$1,392,000 for the financial year ending 31 December 2024, payable in arrears. They were also asked to approve additional directors' fees of S$46,904.11 for the newly-formed Sustainability Committee for the period from 1 June 2023 to 31 December 2023.[65]

Therefore, based on the full year remuneration for non-executive directors, total remuneration paid to them increased by 24.6% from FY2021 to FP2023, and assuming the actual directors' fees paid for FY2024 are the amount approved, and by about another 15.4% in FY2024. The number of non-executive directors remained unchanged between FY2021 and FP2023.

Based on the fee structure disclosed for non-executive directors, there was an across-the-board increase in fees for being Board Chairman, Deputy Board Chairman, Chairpersons of Board Committees, and Members of Board Committees between FY2021 and FP2023. Income does not pay meeting fees for these directors.

The remuneration paid to the board advisor was not disclosed but is determined by the Nominating, Human Capital and Remuneration Committee under its terms of reference.

Management

Andrew Yeo was appointed CEO on 1 June 2019 and remains the current CEO. He joined Income in 2015 and was Income's Executive Vice-President and General Manager of its Life & Health Business.[66] Mr Yeo sits on the Board of Directors of the International Cooperative and Mutual Insurance Federation.[67]

Income also has a Management Executive Committee, headed by Mr Yeo, with 14 other members of senior management.

Executive remuneration

In the FP2023 Annual Report, income disclosed that the approximate mix of remuneration for senior management was about 56%-44%. This was not markedly different from FY2021.

However, although the Corporate Governance Guidelines issued by MAS recommend that the remuneration of at least the top five key executives be disclosed within bands of S$250,000, Income's board *"decided not to disclose information on the remuneration of the top five key executives as the disadvantages to the Company's business interests would far outweigh the benefits of such disclosure in view of the disparities in remuneration in the industry and the competitive pressures that are likely to result from such disclosure"*.[68] Key management personnel remuneration for the 18-month period disclosed in the notes to the financial statements in the FP2023 Annual Report (excluding directors' fees) was S$17.56 million.[69] This compares to S$11.37 million for the 12-month period ending 31 December 2021.[70] Proportionately, there was not much change in this remuneration.

Not only did Income not disclose the CEO remuneration and the remuneration of the top five executives in bands, it did not disclose the total remuneration paid to the top five executives other than directors and CEO, which a listed insurance company would be expected to do under the

Singapore Code of Corporate Governance. There is no visibility as to how many key management personnel received the total remuneration disclosed in the notes to the financial statements.

What's Ahead

The second part of the analysis of Income Insurance discusses the proposed acquisition of a majority stake by Allianz; the reactions to the proposed acquisition and factors contributing to the scrapping of the deal; the balance between commercial and social objectives; conflict of interest; and role of regulators and the government in safeguarding social missions.

Appendix 1: Shareholders of Income Insurance [71]

Shareholder Listing

As of 31 December 2023

INSTITUTIONAL SHAREHOLDERS (23)	Number of Shares
NTUC Enterprise Co-operative Limited	77,987,342
Singapore Mercantile Co-operative Society Ltd	214,035
AUPE Credit Co-operative Ltd	138,255
Singapore Teachers' Co-operative Society Ltd	134,057
Singapore Shell Employees Union Co-operative Ltd	83,463
Singapore Government Staff Credit Co-operative Society Ltd	71,077
Straits Times Co-operative Ltd	62,572
Customs Credit Co-operative Society Ltd	59,715
Singapore National Co-operative Federation Ltd	57,075
Citiport Credit Co-operative Ltd	51,265
TCC Credit Co-operative Ltd	38,124
Temasek Polytechnic Co-operative Society Ltd	35,880
Singapore Public Works Employees' Credit Co-operative Society Ltd	35,625
Singapore Police Co-operative Society Ltd	29,613
Singapore Prison Service Multi-Purpose Co-operative Society Ltd	20,100
Premier Security Co-operative Ltd	14,200
UTES Multi-Purpose Co-operative Society Ltd	13,304
TRC Multi-Purpose Co-operative Society Ltd	12,919
Ngee Ann Polytechnic Consumer Co-operative Society	6,000
Industrial & Services Co-operative Society Ltd	6,095
NUS Multi-Purpose Co-operative Society Ltd	4,420
Seatrium Multi-Purpose Co-operative Society Ltd	3,306
Singapore Bank Employees Co-operative T & L Society Ltd	2,130
Total for Institutional Shareholders	79,080,572
INDIVIDUAL SHAREHOLDERS (15,835)	28,111,173
TOTAL	**107,191,745**

Source: Income. (2022, July 1- 2023, December 31). Annual Report 2023, p. 166. Retrieved from https://www.income.com.sg/annual-report/1jul2022-31dec2023/20/

Appendix 2: Roles and Background of Income Insurance Directors[72]

Ronald Ong	Adeline Sum	Joy Tan
The Chairman is Ronald Ong, who is a non-executive non-independent director (NINED) by virtue of the fact that he is also a NINED on the NE Board. He is also the Chairman of the Board Executive Committee. He was co-opted to the Board of Income on 23 August 2018, formally elected as a NINED on 24 May 2019 and appointed to the Board of Income on 2 August 2022. Mr Ong is the Chairman and CEO, South-East Asia, at Morgan Stanley. He is also a Board Member of NTUC FairPrice Co-operative Limited and NTUC Enterprise Co-operative Limited as well as a Member of the Listings Advisory Committee, Singapore Stock Exchange.	Adeline Sum, the CEO of NE, is also a NINED and Deputy Chairman. She is also a member of the Nominating, Human Capital and Remuneration Committee and Board Executive Committee. She was appointed as a NINED to the Board of Income on 3 November 2023. Since 1993, Ms Sum has served within the NTUC network of organisations. Up to 2001, she worked on key employment and employability issues to represent workers, including serving on the National Wages Council. She has gone on to helm several NTUC social enterprises.	Joy Tan is the Lead Independent Director (LID). She is a member of the Audit Committee, Nominating, Human Capital and Remuneration Committee, and Board Executive Committee. She was elected to the Board of Income as an independent non-executive director on 26 May 2017 and was appointed to the Board of Income on 1 August 2022. Ms Tan is a partner at Wong Partnership, one of the largest law firms in Singapore, where she is Co-Head of the Commercial & Corporate Disputes Practice, the Corporate Governance & Compliance Practice and the Financial Services Regulatory Practice. She also leads the Corporate & Regulatory Investigations Practice. She is

		a Fellow of the Chartered Institute of Arbitrators, and sits on the panels of various professional tribunals, including the panel of arbitrators of the Singapore International Arbitration Centre (SIAC), the Law Society Disciplinary Tribunal appointed by the Honourable Chief Justice under the Legal Profession Act, and the Complaints and Disciplinary Tribunal of the Accounting & Corporate Regulatory Authority (ACRA). She also sits on the Executive Board of the Singapore Chapter of the Association of Certified Anti-Money Laundering Specialists (ACAMS). Joy is also a director and member of the Audit Committee and Risk Committee of Singapore Health Services Pte Ltd, as well as an

		independent director of PEC Limited. She also sits as Chair of the Appeals Board Committee of Council for Estate Agencies (CEA). In the not-for-profit sector, Joy is the Chair of the Board of the Singapore Repertory Theatre and is a director of the Singapore Chinese Cultural Centre.
Sim Hwee Hoon	**Neo Chin**	**Vincent Lien**
Sim Hwee Hoon is an independent non-executive director, chairperson of the Nominating, Human Capital and Remuneration Committee, and member of the Sustainability Committee and Board Executive Committee. Hwee Hoon was elected to the Board of Income as an independent non-executive director on 26 May 2017 and appointed to the Board of Income on 1 August 2022.	Neo Chin is an independent non-executive director and a member of the Sustainability Committee and Board Executive Committee. She was co-opted to the Board of Income on 15 April 2019, formally elected as an independent non-executive director on 24 May 2019 and appointed to the Board of Income on 1 August 2022. Ms Neo has over 30 years of investment experience in the global asset management sector. She is currently the	Vincent Lien is an independent non-executive director and a member of the Audit Committee. Mr Lien was co-opted to the Board of Income on 3 October 2019, formally elected as an independent non-executive director on 26 June 2020 and appointed to the Board of Income on 13 October 2021. He is Managing Director of Lien Properties Private Limited and a director of Lien Ying Chow Private Limited, and Wah Hin & Company.

Ms Sim was the Regional Chief Operating Officer of Private Wealth Management Asia in Morgan Stanley from 2010 to 2016. She was also the CEO of Morgan Stanley Asia International Limited, Singapore Branch, and sat on the Board of Directors of Morgan Stanley Asia International Limited. Before Morgan Stanley, Ms Sim spent 12 years with JPMorgan Private Bank Asia. Her appointments included being the Asia Regional Chief Financial Officer from 2006 to 2010 and Asia Head of Risk Management from 1998 to 2006. She holds directorships at Singapore Labour Foundation and Stashaway and is also appointed to the Central Co-operative Fund Committee by the Ministry of Culture, Community and Youth. In the social arena, Hwee Hoon serves as the President	Chief Investment Officer at the Singapore University of Technology and Design. Prior to the Singapore University of Technology and Design, she spent more than 20 years in Government of Singapore Investment Corporation (GIC) and held various senior direct investment and portfolio management roles. Her investment experience spans across endowment asset allocation, global fixed income, global treasury management, alternative investments, and fund-of-funds asset management.	Vincent is a Council Member of the Lien Ying Chow Legacy Fellowship and is also Income's nominee director on the boards of FFMC Holdings Pte Ltd and Fullerton Fund Management Company Ltd.

of the Board of YWCA of Singapore.		
Robert Charles	**Mak Keat Meng**	**Chen Peng**
Robert Charles is an independent non-executive director, the Chairman of the Risk Management Committee and member of the Digital & Technology Committee and Board Executive Committee. He was elected as an independent non-executive director of NTUC Income Insurance Co-operative Limited on 26 June 2020 and appointed to the Board of Income Insurance on 1 August 2022. Mr Charles is currently Head of Actuarial at Coherent, a global technology company originally founded in Hong Kong, that provides digital solutions to financial services companies. He is an actuary with a background in health, retirement, and investment. Mr Charles spent most of his career in consulting. He	Mak Keat Meng is an independent non-executive director, the Chairman of the Audit Committee and member of the Risk Management Committee. He was elected as an independent non-executive director of NTUC Income Insurance Co-operative Limited on 26 June 2020 and appointed to the Board of Income on 1 August 2022. Mr Mak has over 37 years of experience in auditing and advisory with Ernst & Young LLP. During this period, he has held various leadership positions such as Head of Audit for Singapore & ASEAN, Quality Enablement Leader, and Head of Japanese Business Services. Mr Mak was previously the Chairman of the Insurance Committee of Institute of Singapore	Chen Peng is an independent non-executive director and member of the Risk Management Committee and Digital & Technology Committee. He was co-opted to the Board of NTUC Income Insurance Co-Operative Limited on 21 September 2020, was formally elected as an independent non-executive director on 28 May 2021 and appointed to the Board of Income on 1 August 2022. Dr Chen was the Chief Executive Officer, Asia ex-Japan, of Dimensional Fund Advisors (DFA) from July 2012 to November 2019. He was responsible for all aspects of DFA’s Asia business, overseeing business strategy and development, client servicing and portfolio management. Prior to joining

served as the Asia Pacific CEO of Towers Watson, a leading global risk and human capital management firm. He then built the Hong Kong business of CXA Group, a Singapore startup that provides insurance technology to employers and financial institutions.	Chartered Accountants (ISCA). He is also an independent director of Mapletree Pan Asia Commercial Trust.	DFA, he was with Morningstar where he held various roles over 15 years, including President of Morningstar Investment Management Division, Chief Investment Officer, and Head of Research and Consulting. His clients included insurance companies and pension funds (including manager selection for the Central Provident Fund). He is a member of the Advisory Council of the Centre for Asset Management Research and Investments in the National University of Singapore. Peng is also Income's nominee director on the boards of FFMC Holdings Pte Ltd and Fullerton Fund Management Company Ltd.
Richard Koh	**Craig Ellis**	**Chew Sutat**
Richard Koh is an independent non-executive director, Chairman of the Digital & Technology Committee and member of the	Craig Ellis is an independent non-executive director and member of the Audit Committee and the Nominating, Human Capital	Chew Sutat is an independent non-executive director, Chairman of the Sustainability Committee and member of the Board Executive Committee.

Risk Management Committee. He was elected as an independent non-executive director of NTUC Income Insurance Co-operative Limited on 28 May 2021 and appointed to the Board of Income on 1 August 2022. Mr Koh is the Chief Technology Officer of Microsoft ASEAN, Global Partner Solutions. He is also serving on the Board of Directors of Singapore's Ministry of Home Affairs' Home Team Science & Technology Agency, Ministry of Culture, and Community & Youth's National Heritage Board. Furthermore, he serves on Sentosa Development Corporation's Digital Transformation Advisory Panel.	and Remuneration Committee. He was appointed to the Board of Income as an independent non-executive director on 12 October 2022. A Chartered Accountant, Mr Ellis has over 40 years of experience in the financial services industry, mainly in insurance covering general, life, and health, but also in banking. He brings substantial and broad international experience having worked in Australia, Europe, and Asia. He retired in December 2021 as the Chief Executive Officer of MSIG Insurance Singapore. From March 2020 to December 2021, Mr Ellis served as President of the General Insurance Association (GIA) of Singapore. Prior to joining MSIG, Mr Ellis was the Chief Executive Officer of Charles Monat Associates Pte Ltd in Singapore. He commenced his career with KPMG before	He was appointed to the Board of Income as an independent non-executive director on 21 October 2022. Mr Chew retired from Singapore Exchange (SGX) in July 2022. He was senior managing director and a member of SGX's executive management team for 14 years. On his watch the exchange transformed from an Asian Gateway to a global multi asset exchange. As Head of Global Sales and Origination, he led SGX's equity and debt capital market teams in developing private-to-public capital raising solutions for companies. Prior to SGX, Mr Chew had senior roles at Standard Chartered Bank, OCBC Securities and DBS Bank, where he held varying portfolios in strategic planning and business development for institutional banking and private clients. He founded Shan De Advisors in September 2021 and serves

	serving in a succession of increasingly senior positions with Bank of America, Allianz and Old Mutual International. He is an independent non-executive board member for the RACT Insurance Pty Ltd.	as a non-executive board member of ADDX, a Fintech startup backed by Temasek and SGX, and NTUitive, the Innovation and Enterprise Company of Nanyang Technological University. He is also lead independent director of Singapore-listed YZJ Financial Holdings and Fellow of Singapore Institute of Directors and the Institute of Banking and Finance Singapore. In the social arena, he serves on the Board of National Council of Social Service and Chairman of Community Chest. He is also Patron of Kaki Bukit Citizens' Consultative Committee.

Source: Income Insurance, Annual Report 2023, pp. 18-21.

Appendix 3: Changes in Income Insurance Board[73]

S/N	Name of Director	Role	Year Joined	Status
1.	Ronald Ong	• Director representing Founder Member • Chairman of Board	2019	Still active
2.	Kee Teck Koon	• Director representing Founder Member • Deputy Chairman of Board • Member of Investment, Nominating and Human Resource & Remuneration Committees	2014	2023
3.	Sung Cheng Chih	• Director representing Founder Member • Lead Independent Director of Board • Chairman of Risk Management, Nominating, and Human Resource & Remuneration Committees	2017	2020

4.	Richard Shermon	• Director representing Founder Member • Member of Audit and Risk Management Committees	2017	2020
5.	Choong Tuck Oon	• Director representing Ordinary Members • Member of Risk Management and Investment Committees	2018	2021
6.	Lau Wing Tat	• Director representing Institutional Members • Chairman of Investment Committee • Member of Nominating and Human Resource & Remuneration Committees	2016	2019
7.	Pang Wai Yin	• Director representing Institutional Members	2017	2023

		• Chairperson of Audit Committee • Member of Risk Management Committee		
8.	Joy Tan	• Director representing Founder Member • Member of Risk Management, Nominating and Human Resource & Remuneration Committees	2017	Still active
9.	Sim Hwee Hoon	• Director representing Ordinary Members • Member of Audit, Nominating and Human Resource & Remuneration Committees	2017	Still active
10.	Sim Hwee Cher	• Director representing Institutional Members • Member of Audit and Risk	2018	2020

		Management Committees		
11.	Neo Chin	• Director representing Founder Member • Member of Investment Committee	2019	Still active
12.	Vincent Lien	• Director representing Founder Member • Member of Investment Committee	2019	Still active
13.	Robert Charles	• Director representing Founder Member • Member of Digital & Technology Committee • Member of Risk Management Committee	2020	Still active
14.	Mak Keat Meng	• Director representing Institutional Members • Chairman of Audit Committee	2020	Still active

		• Member of Risk Management Committee		
15.	Chen Peng	• Director representing Institutional Members • Member of Investment Committee • Member of Risk Management Committee	2020	Still active
16.	Seah Kian Peng	• Director representing Founder Member	2020	2023
17.	Richard Koh	• Director representing Ordinary Members • Member of Digital & Technology Committee • Member of Risk Management Committee	2021	Still active
18.	Adeline Sum	• Non-independent non-executive director of Board	2023	Still active

		• Deputy Chairman of Board • Member of Nominating, Human Capital and Remuneration Committee • Member of Board Executive Committee		
19.	Craig Ellis	• Independent non-executive director of Board • Member of Audit Committee • Member of Nominating, Human Capital and Remuneration Committee	2022	Still active
20.	Chew Sutat	• Independent non-executive director of Board • Chairman of Sustainability Committee • Member of Board Executive Committee	2022	Still active

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