

Goh Chok Tong: Challenges and opportunities for Singapore's insurance industry

Speech by Mr Goh Chok Tong, Senior Minister and Chairman of the Board of Directors of the Monetary Authority of Singapore, at the National Trades Union Congress (NTUC) INCOME 40th anniversary gala dinner, Singapore, 22 October 2010.

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1. In 1990 and 2000, I had the pleasure of celebrating with you INCOME's 20th and 30th anniversaries. I am very happy to see that INCOME has grown from strength to strength as it celebrates its 40th anniversary. Naturally, I am anxiously looking forward to your 50th anniversary.

Formation of INCOME and adhering to sound principles

2. INCOME was another of the many initiatives of the late Dr Goh Keng Swee. At the "Modernisation of the Labour Movement" seminar in 1969, he mooted the idea of setting up a life insurance co-operative ("co-op"). A year after, INCOME was formed.

3. Dr Goh believed that a life insurance co-op would advance the cause of the labour movement. Such a co-op would be fulfilling a genuine social need. By getting members of the working class to take out life insurance policies at a cost they can afford, the co-op will help them alleviate hardship at times of unexpected events and build up valuable savings for old age. Besides, the labour movement is an inclusive one, bridging different communities, languages and even to some extent, status. The network of trade unions and branches would provide the life insurance co-op with a clear advantage over private enterprise.

4. To ensure that the co-op would succeed, the realist in Dr Goh laid down a few principles for its operation. First, the co-op must be fully competitive with private enterprises and cannot expect privileged treatment from the Government. Second, the co-op must have effective management. Third, all levels of staff should be recruited based on merit and not affiliations with the labour movement or government. It was the steadfast adherence to these sound principles that has kept INCOME successful over the past 40 years.

The growth of Singapore's insurance industry

5. At INCOME's 30th anniversary celebration, I had sketched out the changes in the global financial landscape, and how MAS had to liberalise the domestic insurance industry. Reputable foreign insurers were allowed to set up in Singapore or enter into strategic alliances with existing local insurers. The hope was for the entry of new players to engender competition, which would in turn promote greater innovation and raise the efficiency of the incumbent insurers. MAS also worked on deepening the local talent pool and fine-tuned the already prudent regulatory framework.

6. Ten years on, these efforts have yielded significant results. The Singapore insurance industry, which saw a number of acquisitions, consolidations and new entrants, experienced strong growth, with total assets tripling to S\$136bn over the past decade. The industry has also matured in terms of the breadth and depth of products and services offered. For example, we see increased capacity in writing specialised risks like aviation, energy, marine and political risks. For the life insurance industry, we have also seen greater product innovation as well as increased interest from insurers offering more sophisticated products catering to the needs of the high net-worth and mass affluent segments.

Future challenges and opportunities

7. But greater challenges and opportunities lie ahead.

Enhancing risk management capabilities

8. The recent global financial crisis has underscored the importance for financial institutions to have strong risk management capabilities. The use of risk management tools such as stress testing, for example, helps identify potential risks, and allows countermeasures to be instituted early. Insurers in Singapore would have to keep abreast of developments internationally, and should continually look for ways to deepen their risk management tools and capabilities. INCOME is no exception. But unlike some of the other insurers that are part of larger global financial institutions and can therefore leverage on their parents' risk management expertise, INCOME does not have such an advantage. These global financial institutions have widely-tested risk management practices and more established risk management cultures, given their richer experience. INCOME would have to grow its risk management expertise internally, but it would do well to learn from these global players' recent experiences.

Strengthening governance

9. However, having risk management tools and capabilities alone will not be enough. The challenge is often in successfully integrating enterprise risk management into the insurer's business, and this would require effective governance. As we have seen from numerous case studies during the financial crisis, weak corporate governance is often the key reason for the failures of financial institutions.

10. Much work continues to be done in developing regulatory requirements on governance in many jurisdictions. In Singapore, MAS has proposed enhancements to its corporate governance regulations and guidelines, drawing lessons from the recent financial crisis and international developments. The key proposals include strengthening the Board of Directors' independence and oversight on risk management; ensuring that the Board has the appropriate skills and time to perform its role effectively; and requiring the Board to set appropriate remuneration policies to prevent excessive risk-taking. INCOME should benchmark itself against the best governance practices even though it is set up as a co-operative.

Addressing the gaps in insurance needs

11. As for opportunities, there remain gaps in Singaporeans' insurance protection needs. Studies commissioned by the insurance industry have suggested that Singaporeans are under-insured. Many are not insured at all while of those who are, many are under-insured. The under-insurance is greatest in the 30–49 age group. This is not surprising. Singaporeans in that age group tend to have heavier financial commitments and a greater number of dependants. So they find the cost of having to pay insurance premium a stretch. Unfortunately, if they were to meet an untimely death, critical illness or physical disability, their dependants would be caught without a breadwinner and saddled with financial commitments like mortgages and so on.

12. There are many reasons for the under-insurance. It could be due to complacency and a false sense of security that misfortune would not befall the individual. Or it could also be a general lack of awareness of how much coverage would be considered adequate. But the more likely reason is the perception that getting the recommended amount of insurance protection is costly and beyond their means. Hence, it is given lower priority amidst other more pressing financial commitments like housing, children's education and other day-to-day needs.

13. What can we do to keep insurance protection affordable? I urge the insurance industry to make a more concerted effort to address this. Part of the problem lies in the conventional practice of insurers in bundling the savings and protection elements into what is known as Whole Life Plans. Since the savings element in such Whole Life Plans can be very significant, the insurance premiums could be 3–5 times that of pure protection Term Assurance plans, for the same level of protection. I faced the same problem when I first started work. I could not afford a Whole Life Plan but had the good sense to choose a Term Assurance policy. Protecting my young family then was more important than leaving them my Whole Life insurance payout after they are all grown up when they need the sum of money the least.

14. The insurance industry should not always push for a Whole Life Plan as it may result in under insurance. It needs to place more emphasis on a pure protection plan like a simple Term Assurance which is a more cost-effective way of addressing the protection needs of Singaporeans. The insurance adviser plays a critical role here. He or she is the first line of contact with the consumers and wields the greatest influence over what they purchase. He should sell what is appropriate to the protection needs of the customer and not maximise his or his company's returns. He should always place the interests of his clients above his own. And it is the responsibility of every insurer to ensure that its advisers are properly trained and incentivised. This is especially important for customers from lower-income households where there are competing demands for limited income. Otherwise, getting adequate insurance protection will be relegated to a lower priority in a working adult's life, hence exposing his dependants to risks of the breadwinner's premature death.

15. The insurance industry should also find ways to reach out to more Singaporeans who are either uninsured or underinsured, and be prepared to go beyond the tied agency distribution model. I am pleased to note that over the years, the insurance industry has diversified its distribution channels to include banc assurance and direct sales. I urge the industry to do more, such as working with more employers and associations to offer group term insurance to cover the lives of their employees or their members. Though group term insurance does not offer guaranteed renewability like individual Term Assurance policies, it nonetheless helps to supplement the shortfall in insurance coverage at an affordable rate.

16. Given its social mandate and objectives, INCOME should take the lead to address the shortfall in insurance protection. Here, I must add that when my insurer notified me, upon my reaching 65, that my Term Assurance has lapsed, I heaved a sigh of relief that it expired before me! I treated the premium paid as an expense.

17. MAS will also play its part in helping consumers make informed decisions when purchasing insurance. It will be working with the industry to enhance transparency in the disclosure of bundled insurance products such as the Whole Life plan. Currently it is unclear how much of the premium paid for a bundled insurance product goes towards providing protection, how much to savings and what the return on the investment is. This will help consumers make a better decision in planning his protection and financial needs.

Conclusion

18. As you have declared publicly in your rebranding exercise, INCOME was born with a difference. Indeed, INCOME's mission is to serve the interests of the policyholders first and foremost, before that of the shareholders. Its social role is to provide essential insurance cover which is accessible and affordable to the population. As you venture into wider segments of the market in line with the rising affluence of Singaporeans, you should not forget the basis of INCOME's formation.

19. I congratulate the Board, Senior Management team and the staff of INCOME, both past and present, for bringing INCOME to where it is today.

20. I wish you continued success in the years to come.