

Issuer: IFS Capital Limited

Security: IFS Capital Limited

Meeting details:

Date: 20 April 2018

Time: 2.00 p.m.

Venue: 250 North Bridge Road #06-00, Raffles City Tower, Singapore 179101

Company Description

IFS Capital Limited, together with its subsidiaries, provides commercial, alternative, and structured financial services in Singapore and Southeast Asia. It operates in three segments: Credit Financing, Insurance, and Private Equity and Other Investments. The Credit Financing segment offers factoring, accounts receivable financing, trade financing, mortgage financing, working capital, financing for overseas operations, and hire purchase services, as well as participates in financing by SPRING and International Enterprise Singapore under Local Enterprise Finance and Internationalization Finance schemes. This segment primarily serves small and medium-sized enterprises. The Insurance segment provides credit insurance facilities to Singapore exporters; and issues performance bonds and guarantees, domestic maid insurance, property and casualty insurance, marine cargo and motor insurance, political risks and engineering insurance, contractors' all risks insurance, and work injury compensation insurance, as well as holds equity securities and bonds under the regulated insurance fund. The Private Equity and Other Investments segment offers development capital in the form of mezzanine financing, convertible debt instruments, and direct private equity investments. The company also provides asset-based financing, venture capital investments, direct financing, business debt factoring, operating leases and consumer financing, and other related services, as well as engages in the factoring of onshore and offshore short-term trade receivables. The company was founded in 1987 and is based in Singapore. IFS Capital Limited is a subsidiary of Phillip Assets Pte. Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=I49)

1. As the company celebrated its 30th anniversary, it reported the first profit attributable to owners of the company amounting to \$1.96 million in the past 5 years. Gross operating income hit a 5-year high of \$48 million and the company resumed dividend payment for the first time in 3 years.

In the Chairman's Message, it was said that the group will be "investing in business productivity and making [the] business future ready" (page 3 of the annual report).

- (i) **When will the group complete its modernisation programme and phase out the legacy operational systems?**
- (ii) **What is the level of cost savings expected from the new app-based system which was designed to reduce the reliance on paper and manual processes and to improve customer experience?**
- (iii) **Will this be implemented just in Singapore, or all the other countries as well?**
- (iv) **How else is the group leveraging on technology and big data/analytics to improve its systems and processes and also to reduce costs?**
- (v) **What is the threat of fintech companies, especially those involved in crowd-funding, peer-to-peer lending that might disrupt the group's core business?**

2. In the group's insurance arm, ECICS Limited, the net earned premium revenue increased by more than 60% from \$6.8 million to \$11.1 million in FY2017 but gross claims jumped to \$(11.3) million and the insurance arm experienced a net claims of \$(10.8) million, more than 4 times the net claims experienced in FY2016.

The net loss before tax for the year for ECICS was \$(3.58) million, a deterioration from the \$(0.955) million loss suffered in FY2016.

In addition, on 10 February 2018, the company announced that A.M. Best has downgraded the Financial Strength Rating of ECICS from A- (Excellent) to B++ (Good) and the Long-Term Issuer Credit Rating from "a-" to "bbb+".

- (i) **With the appointment of a new CEO of ECICS in January 2018, how much time does the board think that ECICS will need to turn the insurance operations around?**
- (ii) **How will the downgrade by A.M. Best affect the subsidiary?**

In addition, A.M. Best has also pointed out the following weaknesses of ECSIS:

- Increased combined ratio that compares unfavorably with the industry average
- Competition has eroded profitability in ECICS's core credit insurance, bonds and guarantee business lines since 2015
- New initiatives to seek growth in new lines of business but the results to date have not met expectations

- (iii) **Can the board and the new CEO help shareholders understand how management will tackle the problems mentioned above?**

Overall, the insurance segment accounts for approximately 15% of the group's total assets (page 141 – Note 42 Operating segments). **Has the board evaluated how strategic is the insurance segment to the group's core business of credit financing to SMEs?**

3. The Executive Resource and Compensation Committee (ERCC) comprises Mr Manu Bhaskaran (as chairman), Mr Gabriel Teo Chen Thye and Mr Lim Hua Min. Mr Bhaskaran and Mr Gabriel Teo are independent directors while Mr Lim is the non-executive, non-independent chairman of the board.

Mr Kwah Thiam Hock was first appointed to the board on 4 May 1987, serving as an executive director, before being redesignated as a non-executive director in 2006 and then as independent director in 2013. Mr Gabriel Teo and Mr Bhaskaran were each first appointed to the board on 2 November 1999 and 26 February 2004 respectively.

Of the four independent directors on the board, only Mr Law Song Keng has served on the board for less than nine years as he was appointed on 31 January 2011.

In the Corporate Governance Report, it was disclosed that in the review of the independence of Mr Gabriel Teo Chen Thye, Mr Manu Bhaskaran and Mr Kwah Thiam Hock, the ERCC took into account the directors' inputs, views and judgement calls made during their deliberations and is satisfied with their independence in character and judgement and that they would be able to continue to present objective and independent views.

- (i) **As both independent directors in the ERCC are subject to particular rigorous review, can the ERCC explain in greater detail how the review of the independence of the long tenured directors was carried out?**
- (ii) **Can the board and the ERCC confirm that no director was involved in the review of his own independence?**
- (iii) **Following the appointment of Mr Law as an independent director in 2011, what are the company's other near-term plans to progressively refresh the board?**