Building modern insurance portfolios in Asia Pacific

How to adapt to dynamic markets

The increasingly challenging macro, market and regulatory backdrop for insurance companies in Asia Pacific (APAC) requires tough decisions about how to adapt allocations, manage capital requirements, rethink portfolio exposure and make tactical tilts in public and private markets. A survey in Q1 2025 of more than 70 investors from 50 leading insurers across the region by *AsianInvestor*, in collaboration with Aberdeen Investments, reveals different routes to tackling new regimes and planning portfolios in a new investment era.

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SURVEY SUMMARY

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Adapting to changing times in insurance investing

A growing number of insurance companies in APAC are working on modernising their investment portfolios – through incorporating best practices in asset-liability management (ALM) and more closely integrating these with allocation decisions and how they measure overall performance.

This trend is reflected in how various insurers are responding to evolving capital regimes and integrating capital efficiency requirements into the investment process.

There is little choice for insurance companies but to adapt.

Amid intensifying market stress through heightened volatility and continuing uncertainty, they need to reassess exposures to both public and private markets, and also how they select third-party managers to outsource to.

Put simply, investors need to navigate and balance the risks of escalated market volatilities via geopolitical tensions and Trump's policies through greater diversification, including broader alternative asset allocation.

At the same time, a shifting regulatory landscape demands a rethink for most insurers in APAC about how they approach ALM.

In markets such as Hong Kong, Singapore and Korea, for example, the majority of insurance investors have established matching adjustment portfolios which comply with local regulations, and some of the more forward-thinking institutions are, in parallel, optimising the matching adjustment spreads.

These were among the views of asset allocators in response to a survey of more than 70 individuals from over 50 insurance companies across APAC.

The findings outlined in this report cover sentiment at leading insurers on a range of commonly discussed topics – from key performance indicators (KPIs) to new drivers of investment decisions, to the impact of ALM and regulatory trends, to asset allocation strategy in today’s markets, to net zero and sustainability considerations.

KEY SURVEY TAKEAWAYS:

How insurers are responding to evolving markets and regulations

- Risk vs return is by far the most important factor shaping investment decisions this year amid escalated volatility.
- Nearly 80% of respondents believe the most appropriate investment KPI is to evaluate performance with both liability-matching and risk capital requirements in mind.
- The two biggest hurdles to incorporating capital efficiency in the investment process are: (i) the need for management to review the investment process; and (ii) establishing a new working framework with other departments, such as actuarial, finance and risk.
- Under today’s insurance capital regimes, the area most respondents want adjusted to achieve more favourable capital treatment is infrastructure investment, across both equity and debt.
- Within public markets, global investment grade (IG) credit is the preferred asset class for 2025, followed by global equities.
- For private markets exposure, private debt is by far the most appealing asset this year – in the form of corporate debt.
- When outsourcing private debt investments, the most important characteristic that insurers look for in a third-party manager is track record.
- The most effective way to implement a net zero investment strategy is at the strategic asset allocation (SAA) level, with insurers looking for clarity and consistency of the ESG / sustainability process when selecting a third-party manager.

EMERGING THEMES

TREND 1 *New drivers for investment decisions*

Notable for all insurers across the region based on the survey is the influence of risk vs return as being by far the most important driver of investment decisions this year.

One-third of insurers rank it as their top factor due to escalated volatilities through geopolitical tensions and Trump 2.0 policies.

The evolving insurance capital regime is the next biggest influence, as insurers look to modernise the investment approach to gain a competitive edge.

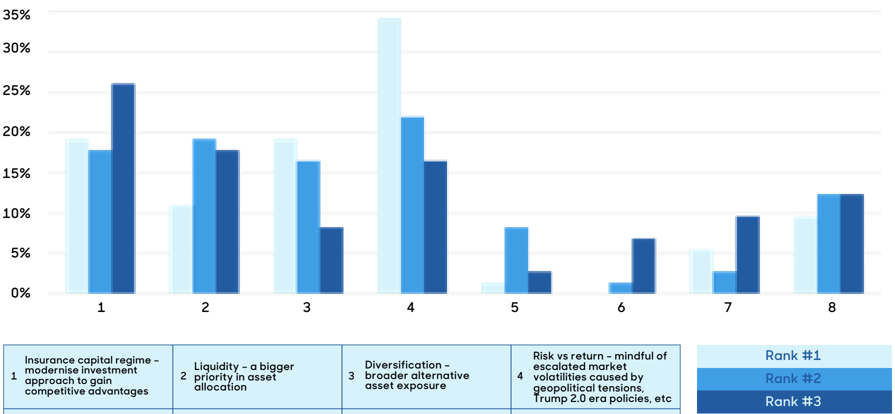
Comparatively, considerations about liquidity and diversifying to get broader alternative asset exposure are markedly less significant in shaping decision making at the current time.

BREAKDOWN OF SURVEY RESPONDENTS:

HONG KONG	30
SINGAPORE	14
KOREA	13
MALAYSIA	07
THAILAND	04
TAIWAN	04
AUSTRALIA	01

Market trends – What will shape your investment decision making this year?

Data: All Respondents



1 Insurance capital regime – modernise investment approach to gain competitive advantages	2 Liquidity – a bigger priority in asset allocation	3 Diversification – broader alternative asset exposure	4 Risk vs return – mindful of escalated market volatilities caused by geopolitical tensions, Trump 2.0 era policies, etc
5 New mandates – adapt / re-prioritise selection criteria	6 Sustainability – increasing allocation to assets in line with ESG considerations	7 Resourcing – either automate or outsource more	8 TAA – more frequent & dynamic reviews to tackle dislocations or capitalise on windows of opportunity

TREND 2 *Putting ALM best-practice at the core*

In response to a more challenging market environment and shifting regulations, more than three-quarters (78%) of survey respondents are aligned in the view that the most appropriate KPI to reflect investment performance is to evaluate performance with both liability-matching and risk capital requirement considerations in mind.

By contrast, only 2% say they evaluate performance with liability-matching considerations alone, with 15% focused entirely on portfolio returns.

This is to be expected. "In this turbulent environment, insurance investors may find better protection if they adhere to liability-driven investment principles," said Daniel McKernan, Global Head of Insurance Fixed Income Solutions at Aberdeen Investments, explaining that insurance liabilities offer a form of natural hedging for insurers.

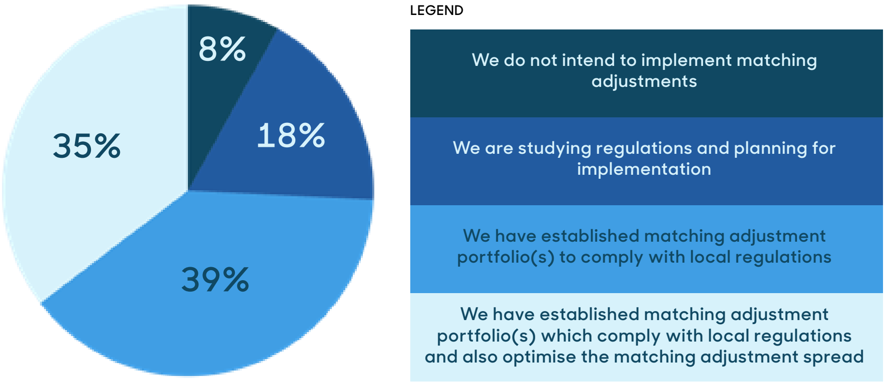
For example, if the interest rate sensitivities of assets and liabilities are closely matched, the decline in asset values due to higher risk-free rates can be largely offset by a corresponding decline in liability values. Similarly, minimising net currency mismatches between assets and liabilities can yield comparable benefits.

This approach is becoming more widespread in Asia. In Hong Kong, a senior investment practitioner at one of the leading insurance companies in the region said his firm's ALM process has become the core foundation on which investment strategy now gets defined and then implemented. In turn, by looking at outcomes, changes can be made to allocations with matching in mind, helping to free up the risk budget for other asset classes.

"Effective ALM should play a significant role in measuring investment performance," added Vivian Tang, Head of Institutional Clients for Aberdeen Investments in APAC. "Traditional strategies such as Strategic Asset Allocation (SAA), Tactical Asset Allocation (TAA) and diversification remain important, but they should not overshadow the value of robust ALM practices."

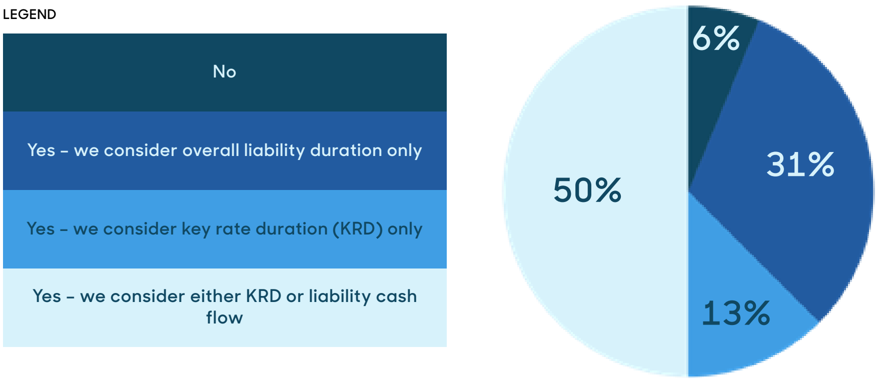
More broadly, across insurers in Hong Kong, Singapore and Korea, the survey shows just over one third (35%) of insurance investors have established matching adjustment portfolios which both comply with local regulations and optimise the matching adjustment spread. By contrast, for 39%, their portfolios only comply with local regulations. The remainder are either studying regulations and planning for implementation (18%), or aren't intending to implement matching adjustments (8%).

ALM – How advanced is your progress in implementing matching adjustment?
Data: Singapore, Hong Kong, Korea



The approach adopted by insurers in Malaysia, Thailand and Taiwan is slightly different – over 90% say liability-matching requirements influence their investment decisions, with half of all respondents in these markets considering either key rate duration or liability cash flows.

ALM – Do liability-matching requirements influence your investment decisions?
Data: Malaysia, Thailand, Taiwan, Australia



By contrast, Europe's more sophisticated insurers do not consider asset allocation and ALM to be distinct from one another. "They consider asset allocation as one of the core elements of a holistic ALM framework," confirmed McKernan.

Under such a framework, an insurer would assess how different assets and liabilities might behave under different future scenarios, he explained. This involves assessing the potential for differences in returns, volatility, diversification, resilience to stress and liquidity, and also the potential for resulting different impacts on the balance sheet and solvency capital requirements.

TREND 3 *Raising the bar in response to new regulatory regimes*

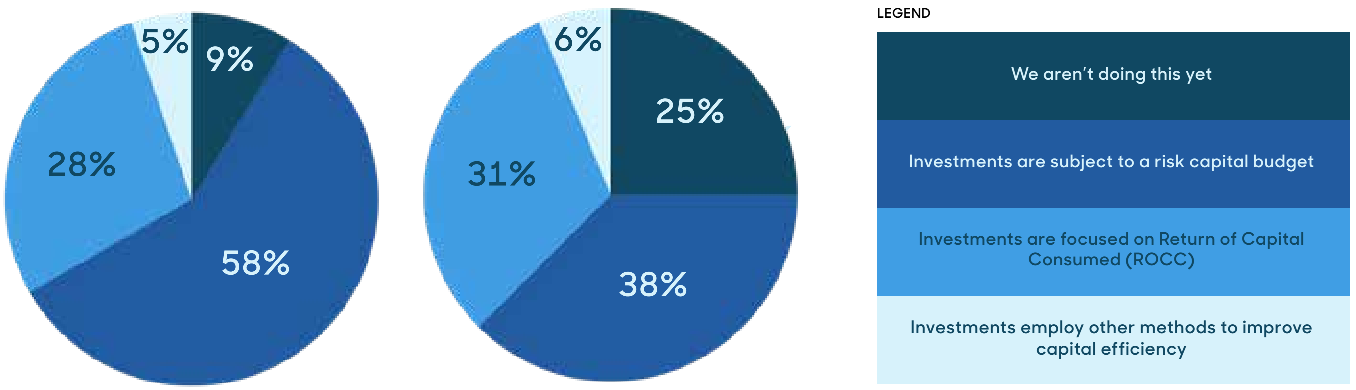
A more coordinated and integrated approach to ALM is essential under new regulatory regimes across APAC. These new regimes are compelling insurance companies to become as efficient as possible in how they incorporate capital requirements into the investment process.

Based on the survey findings, the response is different among insurers depending on their location.

For respondents in Hong Kong, Singapore and Korea, when integrating capital efficiency requirements into the investment process, well over half (58%) say investments are subject to a risk capital budget, with only 9% not yet on this journey.

This contrasts with respondents in the other markets covered by the survey, where 38% say investments are currently subject to a risk capital budget, and one quarter are not yet at the stage of integrating capital efficiency requirements into the investment process.

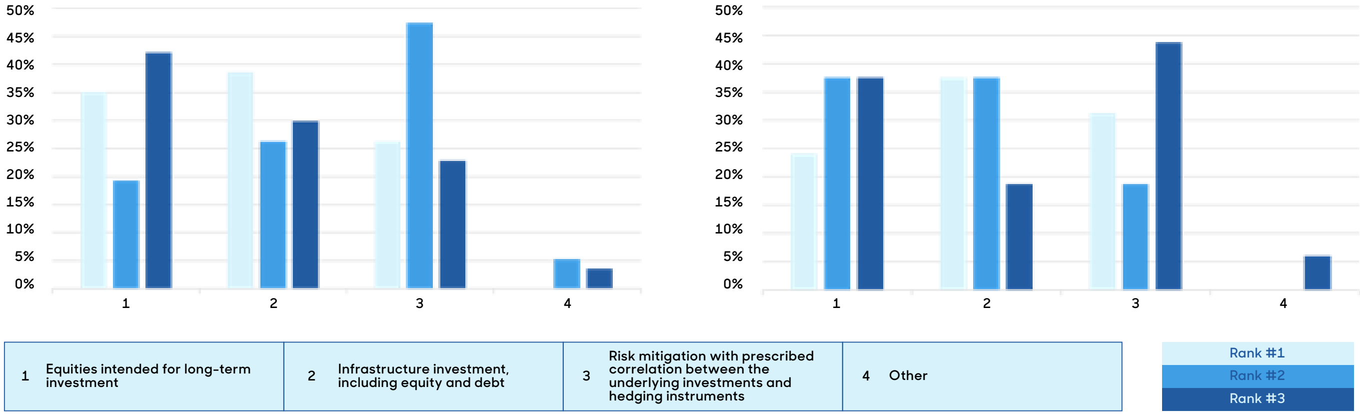
Capital efficiency – Given evolving insurance capital regimes, how are you integrating capital efficiency requirements into the investment process?
Data: [Chart 1] Singapore, Hong Kong, Korea | [Chart 2] Malaysia, Thailand, Taiwan, Australia



Across APAC, insurance investors see similar hurdles when trying to incorporate capital efficiency in the investment process. These are generally either due to management needing to review the investment framework to incorporate capital efficiency as one of the objectives, or the need to establish a new working framework with other departments, such as actuarial, finance and risk.

Meanwhile, to help insurance investors achieve reasonably favourable capital treatment within the current capital regime, respondents from all markets generally agree that infrastructure investment – across both equity and debt – is the most important area to adjust.

Capital regime – Which area(s) within the current insurance capital regime do you believe should be adjusted to achieve reasonably favourable capital treatment?
Data: [Chart 1] Singapore, Hong Kong, Korea | [Chart 2] Malaysia, Thailand, Taiwan, Australia



ABERDEEN INVESTMENTS' THREE-STEP APPROACH TO A BEST-PRACTICE INSURANCE PORTFOLIO

START BY UNDERSTANDING THE INSURANCE LIABILITIES

- Not only it is important to consider liability costs when setting return targets but how liabilities interact with various risk factors, such as interest rates, credit spreads and equity, should also be fully understood.
- With this understanding, an investment portfolio can be constructed to mimic the behaviour of liabilities.

FOCUS ON CAPITAL EFFICIENCY

- European/UK insurers consider capital efficiency as core to ALM practice and strive to eliminate inefficiencies. As a result, matching adjustments are used as a tool for capital efficiency.
- Conversely, Asian insurers often feel content if their solvency ratios are well above the Minimum Capital Requirement (MCR) without optimisation. Instead, two questions are worth asking: How would their solvency ratio look with certain optimisations applied? And what can be done with this 'extra' ratio?

ENHANCE COORDINATION AMONG DEPARTMENTS

- A 'modern' insurance portfolio requires coordination across several key departments.
- Instead of the traditional approach – where Actuarial leads liability modelling, Risk leads risk management, Finance leads liquidity management and Investment leads investment – in practice, no department should work in isolation. Structured, smooth information sharing and communication are key.

TREND 4 *Allocating to diversify risk and income*

Within asset allocation, there has been no slowdown in appetite amongst Asia's insurance investors for private markets assets, which are considered an attractive alternative source of yield and diversification.

"The increasing popularity of private assets in recent years is entirely logical," said McKernan, "driven by the pursuit of yield enhancement, which began in a low-yielding environment more than a decade ago and continues today, as well as the trend of banking disintermediation."

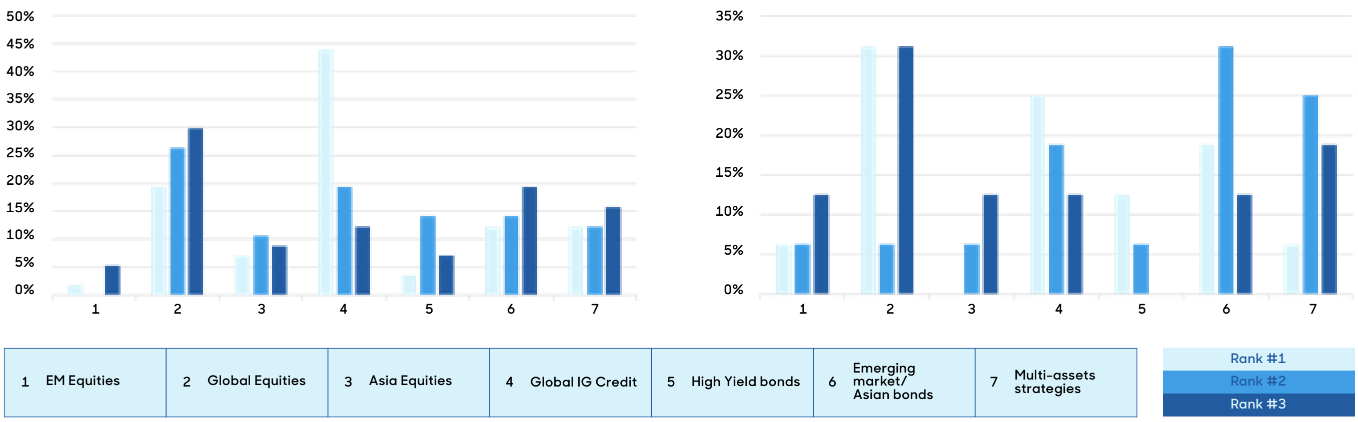
In particular, many insurers in APAC have been attracted to direct lending in the private debt space, and the survey shows this trend is gathering momentum.

For instance, respondents across the region are united in the appeal of private debt for the rest of 2025. In Hong Kong, Singapore and Korea, over half (55%) rank corporate debt as their preferred investment, with 37% doing so in Malaysia, Thailand and Taiwan.

Within private debt, Tang said she continues to see opportunities with a balanced view on risk and return. "Investment-grade private debt and short-term financing opportunities may be more suitable for the conservative nature of insurers. These options can provide a more stable return profile while mitigating some of the risks associated with higher-yielding, but potentially more volatile, direct lending opportunities."

The preference for private debt is also well ahead of other private market assets, according to survey respondents. Private equity ranks second for Hong Kong, Singapore and Korea investors, while insurers from the other markets surveyed show relatively strong interest in infrastructure debt.

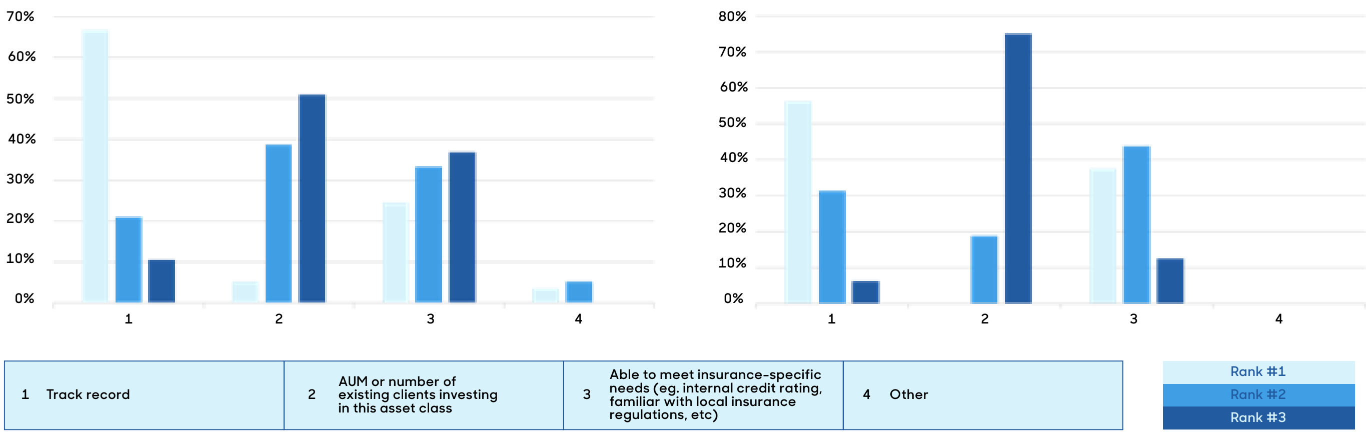
Portfolio strategy / exposure – In which 3 of the following private market assets are you likely to invest most during 2025?
Data: [Chart 1] Singapore, Hong Kong, Korea | [Chart 2] Malaysia, Thailand, Taiwan, Australia



In terms of making their private debt allocation, the survey also highlights what insurers are looking for when they outsource to third-party managers.

Overwhelmingly, the characteristic that respondents from all markets say matters most to them, is a manager's track record. This is followed by experience and understanding in relation to the investor's insurance-specific needs.

Private debt – Given the fact that most insurance companies choose to outsource private debt investment, what are the most important characteristics you want from a third-party manager?
Data: [Chart 1] Singapore, Hong Kong, Korea | [Chart 2] Malaysia, Thailand, Taiwan, Australia



These attributes align with the desire among insurance investors to maintain a balanced approach, leveraging the expertise of third-party managers and focusing on capital efficiency and risk management to develop successful private debt strategies, especially as market stress increases.

"These managers bring specialised expertise, robust risk management frameworks and access to a broader range of investment opportunities," said McKernan. "They can help insurance investors navigate the complexities of private debt markets, ensuring that portfolios are well-diversified and aligned with the investors' risk tolerance and return objectives."

A key consideration, she noted, is the fact that expertise and experience in private debt are not necessarily exclusive to the largest firms. "Coverage does not always equate to expertise or performance. Smaller firms can also possess deep knowledge and specialised skills in specific areas." performance. Smaller firms can also possess deep knowledge and specialised skills in specific areas."

As for access to exclusive deals, established networks and relationships are key in providing access to high-quality private asset deals.

> **Access to exclusive deals is not solely the domain of large firms**

Tang added.

The ability to customise deals according to an investor's unique needs is a critical factor for insurers.

Other factors investors should consider include efficient implementation, quality of client service, with smooth communication and quick responses all crucial for successful private asset investments.

"Can external managers source and construct deals that match liability cash flows? Do they understand the nuances of matching adjustments?And can they maximise the benefits of matching adjustments from private asset investments?" asked Tang. "These considerations should carry significant weight in the decision-making process."

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