

## APAC insurers consider regulatory adoption as the highest priority, reveals APAC insurance survey

- Over 90% of respondents consider IFRS 9 / 17 adoption to be amongst their highest priorities, while 71% of the insurers view RBC regulation adoption as a high priority
- 50% of insurers have not yet started to integrate net-zero into their investment strategies, with data quality and investment management being major roadblocks
- Around 40% of APAC insurers plan to allocate more of their investments to private market products, including private debt and private equity
- More than 60% of insurers are struggling to implement effective hedging strategies due to high costs and limited availability of hedging instruments
- Insurers' Investment-Linked Policies ("ILPs") businesses remains a key focus area for many insurers. However, designing an appropriate advisory model and digitalising the ILP value chain are needed in order to unlock the full potential of ILPs.

**Hong Kong / Singapore, 12 April 2023** - Global asset manager, abrdn, and Hong Kong-based financial services strategy consultancy, Quinlan & Associates, have launched the first APAC Insurance Investment Landscape report, which explores how insurers in the APAC region are tackling – and capitalising on – various industry-specific developments, as well as to understand the key priorities in their future investment strategies.

**Rene Buehlmann, CEO – Asia Pacific at abrdn**, said, "The report offers insights into how insurers in Asia Pacific are seeking to optimise their investments and risk management against a backdrop of major regulatory change. In an increasingly complex operating environment, these survey findings will help us to adapt our solutions to meet their evolving needs. We hope it offers some valuable insights."

The report surveyed 56 senior executives across 43 insurance companies covering eight markets in APAC, including Hong Kong, Singapore, Mainland China, Thailand, Taiwan, Malaysia, Australia, and South Korea on six key topics ranging from regulatory adoption to Environmental, social, and governance ("ESG") and net-zero, to investment and hedging strategies, ILP business, and external partnerships.

**Vivian Tang, Head of Institutional – Asia Pacific at abrdn**, said, "Insurers have specific investment needs. They have to generate sufficient returns to meet their long-term commitments to policyholders, while weighing investment risks against regulatory requirements and the potential for balance-sheet volatility. Having extensive experience in working with insurers, abrdn launched this survey to learn how decision-makers were seeking to optimise their investment portfolio to achieve asset yield, capital efficiency and responsible investment objectives."

**Benjamin Quinlan, CEO and Managing Partner of Quinlan & Associates**, said, "Global investors faced a host of headwinds in 2022, including major regulatory changes, rising inflation, declining asset prices, and increasing geopolitical tensions. Considering these developments, we are pleased to partner with abrdn to gain a better understanding of how insurance companies are formulating their investment strategies (and broader business priorities) as they navigate the current environment, with the aim to provide better solutions to this segment of the market."

**APAC insurers see regulatory adoption as the highest priority**

The findings of the joint survey indicate that regulatory adoption is the highest priority for APAC insurers. 91% of respondents consider IFRS 9 /17 adoption to be amongst their highest priorities, while RBC regulation adoption is also considered to be a high priority by 71% of insurers. On average, 36% of the APAC insurers surveyed plan to reclassify their investment assets under Amortised Cost or Other Comprehensive Income ("OCI"), with insurers from Hong Kong (57%) and Mainland China (57%) progressing relatively slowly on this decision.

In terms of capital risk optimisation, 57% of the APAC insurers surveyed plan to adopt (or have adopted) both security-level and SAA-level optimisation to manage their capital risks, and 32% of insurers prefer to optimise at only the SAA level. Among those insurers who are adopting certain level of optimisation, more than 50% of them consider it difficult to implement.

**ESG considerations are incorporated further into operations and investments**

As regulators in APAC have set out rapidly evolving expectations on ESG requirements for regional insurers, focusing in particular on environmental initiatives (e.g., net-zero), as well as risk management strategies in recent years, insurers are incorporating ESG considerations into their operations and investments. The survey findings show that 70% of APAC insurers have either already integrated ESG into their investment strategies or are in the progress of doing so, while 50% of respondents have not yet started to integrate net-zero. Data quality remains the largest integration barrier for both ESG and net-zero, followed by investment management, which are the starting points of the entire integration value chain.

An average of 62% of APAC insurers believe local ESG regulations will become stricter in the coming three years, and expectations are particularly high in Australia (77%), Malaysia (72%), and Hong Kong (69%).

**APAC insurers are seeking yield enhancements while being more sensitive to risks**

Amidst a backdrop of declining equity and bond valuations, around 40% of APAC insurers plan to allocate more of their investments to private debt and private equity in the next three years, with 33% planning to decrease their investments in equities. As for real estate, multi-asset, fixed income, and money market / cash investments, around half of the surveyed insurers plan to retain their current allocation levels.

Investment risks, solvency risks, and liability duration / cash flow matching are the top factors driving insurers' future investment strategies. In terms of preferred markets, 73% of insurers plan to allocate more investments towards international markets, whereas insurers in South Korea, Mainland China, Thailand, and Malaysia still prefer domestic markets.

**Risk hedging strategies amid the increasing challenging and complex risk environment**

In terms of risk hedging strategies, embedded option risk hedging is considered as the most challenging hedging strategy to implement, followed by credit risk hedging, amongst the different varieties of risk hedging strategies. The survey also shows that the major challenges in implementing hedging strategies are costs and limited choices of hedging instruments.

For interest rate risk hedging strategies, more than half of all surveyed insurers directly match asset-liability duration as closely as possible, while 46% of insurers choose to dynamically manage duration.

**Investment-Linked Policies business has become the expansion focus for APAC insurers**

In response to increased capital requirements imposed by RBC regulations, and given that Investment-Linked Policies ("ILPs") are capital-light in nature, 65% of APAC insurers said they are likely to expand their ILP business, particularly for insurers from Thailand (76%), Korea (76%), and Malaysia (73%). Nonetheless, nearly 50% of all surveyed insurers consider creating an appropriate ILP fund advisory model to be a major challenge that they are looking to address. Moreover, as the digitalisation level of ILPs is generally low, more than 75% of APAC insurers have plans to further digitalise client-related operations.

**Substantial demand to outsource ESG integration efforts**

Insurers expressed strong demand to outsource their ESG integration efforts, investment execution, as well as hedging strategies to external partners. When considering partners, 96% of surveyed insurers believe that brand, reputation, and performance track record are very important or important factors, while independence is not a concern.

**Xiong Jian, Senior Insurance Solutions Director at abrdn**, said, "We see regulatory adoption and ESG integration as high priority focus areas for regional insurers amid the current market conditions. The key to gaining a competitive advantage for regional insurers would be to move away from a reactive, compliance-driven mindset to a proactive one, leveraging RBC, IFRS 9 / 17, and ESG as strategic differentiation points. The rising digital savviness of customers and the limitations of the agent network in effectively pitching ILP products to target customers also suggests that insurers should further digitalise their ILP businesses."

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**About abrdrn**

At abrdrn, we enable our clients to plan, save and invest for their futures.

We structure our business into three areas – and together they reflect our focus on enabling our clients to be better investors:

- **Investments:** We work with clients to create solutions across asset classes, regions and markets globally – combining multi-layered research and market insights with technology and diverse thinking.
- **Adviser:** We offer market-leading platform technology and tools that enable UK wealth managers and financial advisers to create more opportunity for their business and their clients.
- **Personal:** We help people throughout the UK plan for their financial futures – through our financial planning business and our digital investing services.

Across our investments, adviser and personal businesses we manage and administer USD 601 billion of assets for our clients, and abrdrn plc has over 1 million shareholders (Figures as at 31 December 2022).

Our investments are built on an insight strength that comes from multi-layered research and a large global footprint. Our teams collaborate across multiple capabilities, to create forward-thinking solutions that aim to meet our clients' needs and deliver more sustainable outcomes. Our investments business manages US\$452 billion on behalf of individuals, governments, pension funds, insurers, companies, charities and foundations (as at 31 December 2022) – with support and expertise from 800 investment specialists in over 30 locations.

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**About Quinlan & Associates**

Quinlan & Associates is a leading independent strategy consulting firm specialising in the financial services industry. The Company offers thought-provoking views on the evolution of the industry and translates cutting-edge strategic advice into commercially executable roadmaps for some of the world's largest and most innovative financial institutions and FinTechs. With a team of top-tier financial services and strategy consulting professionals, Quinlan & Associates provides its clients with the most up-to-date industry insights from around the world, positioning the Company as a leader in this field.

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