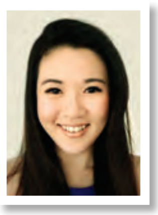
INSIGHTS – INVESTMENT FOCUS

Growth in green fields

There appears to be investment bright spots for insurers in the year ahead, given Asia's burgeoning population and increasing urbanisation among other trends. Meanwhile, responsible investing is also growing in emphasis as investor profiles and mindsets evolve. How should insurance asset managers respond? Where lie the opportunities? We bring you highlights from the recent 5th Asia Investment Management Summit for Insurance.

By Dawn Sit



Investment growth prospects for insurers are looking good because "we're in the right place, at the right time, and in the right industry," said Mr Bin Deng, Head of Group Investment Solutions & Derivatives, AIA Group.

Mr Bin Deng

Giving a world view from an insurance investment manager's perspective, he pointed to the abundant potential in Asia's population and emerging markets. Asia's population, age-wise, and urbanisation have yet to peak; on top of that, the vast majority of people are under-protected and will thus need both savings and investment products to manage their wealth as they progress in life.

Even among more mature markets like Taiwan, South Korea, Japan and Australia, he noted the steady growth in demand for investment-linked products: "Investment-linked means investing in funds, different types of markets – stocks, infrastructure bonds. So from an investment manager's perspective, it's a great opportunity to help people."

FinTech investments

Discussing prospects for 2018, AMTD Group's Head of Research Michelle Li touched on global FinTech investment trends and spoke about the two largest FinTech markets in the world, each having distinct motivations. While the US FinTech market is focused on serving up better customer experiences than traditional incumbents, with lower costs, China's FinTech startups are aimed at serving the under-banked, as well as offering one-stop-shop solutions to meet all financial needs.

Ms Michelle Li

However, FinTech investment in China, she said, appears to be maturing and Chinese investors have thus started to look at other emerging markets in Asia to replicate successful business models from home. Nonetheless, among other findings from AMTD's Asian Investor FinTech survey, Ms Li noted that investors' interests are still focused in China and the US, particularly in data analytics, wealth management and capital market-related opportunities.

RMB assets an opportunity


Mr Gregory Suen

Mr Gregory Suen, Investment Director for Fixed Income at HSBC Global Asset Management, made the case for RMB assets, particularly now that the Chinese bond market is much more accessible to foreign investors via various initiatives, such as the latest launch of the Bond Connect in July 2017.

China's bond market is the third largest in the world, with over US$10 trillion in outstanding bonds, but is currently under-invested. Compared to the top 10 bond markets globally and among its counterparts with similar credit ratings, Chinese bond yield relatively higher returns, and have relatively low correlation with other bond markets, he said.

Take different risks


Mr Will Rainey

Meanwhile, Mr Will Rainey, Head of Investment Strategy, Asia for Willis Towers Watson, gave a more muted view of investment growth ahead as downside risks appear to outweigh upside potential.

Just taking more of the same risks is no longer the right answer, he said. Among other points, he highlighted that insurers should not only consider asset manager diversity, but also concentrated portfolios as they tend to improve outcomes.

Green investing


Mr Mushtaq Kapasi


Mr Jonas Von Oldenskiöld

Industry experts including Mr Mushtaq Kapasi, from the International Capital Market Association (ICMA); Mr Jonas Von Oldenskiöld, Head Asset Management Asia Hub, Swiss Re; and Mr Luca Russignan, from EY Knowledge, called on the industry to promote dialogue and responsible investments as "what we invest in affects what we protect".

While the environmental focus globally has primarily been on global warming and carbon emissions, the scope of environmental changes is much wider and must encompass considerations like political tensions; ecosystems' destruction; disease outbreaks and long-term medical issues; and the impact of consumption patterns.


Mr Luca Russignan

Mr Russignan noted that the adoption of responsible and environmentally-friendly investing in the insurance sector has been on a significant rise in recent years, driven by four main factors. First, evolving investor profiles and mindsets have led to more sustainability-driven choices. Secondly, technology has greatly enabled both information velocity and freedom, leading "negative news to travel far". For example, six months after the diesel emissions scandal in 2014 broke, it led to significant fallout in global equity markets as European auto stocks plunged by an average of 31%.

A third driving force is in the form of government policy and regulations, such as a quadruple increase in carbon and ESG disclosure initiative across sectors in the last decade, have played a key role in driving investment discipline. Finally, investors have mostly found that responsible investing typically leads to favourable returns.

He added that insurers and asset managers must take a balanced view of environmental risks in order to devise a robust investment strategy. While the environmental focus globally has primarily been on global warming and carbon emissions, the scope of environmental changes is much wider and must encompass considerations like political tensions; ecosystems' destruction; disease outbreaks and long-term medical issues; and the impact of consumption patterns.

Regulator urges ALM focus in investments


Dr Moses Cheng

While the emergence of new investment tools and tech initiatives, such as green bonds and InsurTech among others, are potential investment opportunities for insurers, Dr Moses Cheng, Chairman of the Insurance Authority (IA) of Hong Kong, exhorted investment managers to exercise due care and diligence in their selection of investments. In his keynote speech, he urged insurers to enhance their asset-liability management (ALM) function to better set their risk appetite for asset-liability mismatch risk and devise appropriate measures to address it.

"ALM is the cornerstone of the investment process, in which it helps insurers understand the interactions between investment risks of assets and the structure and duration of liabilities. With a holistic view, the Board and management will be better informed of the nature and evolving risks of their business and the benefits of diversification."

He also shared an update of the IA's progress in developing a new Risk-Based Capital (RBC) regime, where it launched its first four-month Quantitative Impact Study (QIS) in late July 2017. In view of the complexity of the exercise and from past experience of other jurisdictions, more than one QIS will be necessary. The entire QIS exercise is expected to be completed in 2019, Dr Cheng said.

Separately, the IA was also in the midst of shifting to a new long-term office, to be completed by 18 December, and will be expanding its staff strength from the current 180 to 300 when it starts regulating insurance intermediaries directly in mid-2019, he added.