Green investing more than a fad

L-R: Mr Frank Yuen, Ms Eunice Tan and Mr Siew Wai Wan

Insurance companies are facing numerous challenges, not only in the underwriting side of the business, but also in the investment sphere. The chase for yields remains just as intense, although sustainability considerations as well as geo-political risk will be significant considerations moving forward, say experts.

By Ridwan Abbas

Sustainability issues are now a major factor in investment decisions with institutional investors increasingly cognisant of the impact of climate change, although insurers seemingly lag behind other asset owners and managers in being as climate conscious.

This was revealed by Eastspring chief investment officer Virginie Maisonneuve during the recent Insurance Investment Summit organised by *Asia Insurance Review* in Singapore. In her keynote address she cited a survey which revealed that only one-third of insurers polled said their business was 'climate aware'.

Ms Virginie Maisonneuve

Meanwhile, a survey of CFA Institute members last year showed 72% expect their firm's future commitment to ESG-related research to be higher over the next five to 10 years. Recent election results in Europe, where Green parties made significant inroads, also suggests a growing desire within society to address environmental concerns.

Here in Asia, the effects of climate change are especially acute with 17m people having been displaced by natural disasters since 2015. However, the value of sustainable, responsible and impact investing (SRI) assets in Asia (ex-Japan) stood at approximately $52bn in 2018 – compared to the $30tn of SRI assets globally.

In fact, SRI assets in Asia (ex-Japan) grew by only 30% since 2012, compared to 227% in the US and a whopping 31,000% in Japan. SRI assets in Japan stood at $2.2tn in 2018, making impressive gains in a short period, compared to 2014 when assets stood at only $7bn.

Given the growing attention to socially-responsible investing, Ms Maisonneuve said ESG practices within the asset management sector should be standardised in order to be even more effective.

Disruptions in asset management

Aside from the fact that sustainability has become a major consideration for investors, the asset management business, like insurance, is undergoing its own disruption process said Ms Maisonneuve. Some of this disruption pertains to the rise of Fintechs, whose adoption of new technologies gives rise to new business models and also shifts the economics and accuracy of the investment process.

The implications include the growth of robo-advisers, greater customisation for clients and also compressed margins for investment firms.

Another piece of the disruption puzzle pertains to the fact that interest rates look set to remain lower for longer. With the US-China trade war casting a long shadow over the global economy, central banks are likely to maintain a loose monetary policy to support economic growth.

From an insurer's perspective, life companies which offer guaranteed returns products would be the most affected – although this is rarely practiced by insurers in Asia. However, lower rates will mean that insurers will be more receptive to alternative assets in the search for higher yields. As a result, insurance companies may look to outsource more of their investment functions to asset managers to match their liabilities and access non-traditional assets, said Ms Maisonneuve.

She believes that having 5% invested in alternative assets would be ideal for a healthy multi-asset insurance portfolio, subject to local regulations covering investments for insurance companies.

One alternative asset that may be worth considering are Singapore REITs, or S-REITs. DBS Bank head of property research in Singapore Derek Tan said that a majority of the property subsectors in Singapore are seeing positive trends and that yield spreads are above the historical average, implying room for upside potential.

Macro outlook


Mr Jeff Ng

Continuum Economics chief economist for Asia Jeff Ng, meanwhile, predicted slower US growth with room for downside, especially given that the effects of tax cuts in 2017 have worn off. He added that the Federal Reserve is likely to ease interest rates before the end of the year.

Meanwhile, the outlook in China is slightly better as it grapples with an ongoing trade war with the US. But while exports to the US have fallen dramatically in the last six months, Chinese exports to Asia and the EU have stayed resilient. Mr Ng expects Asia to remain the growth engine of the global economy and be an 'important stabiliser' to world growth in the next few years.

By all accounts, global political instability will increase and as a result free market capitalism will have to co-exist with the age of geo-economics, said the World Pensions Council director-general Nicolas Firzli. As a result, investors would have to contend with greater volatility and place political risk at the centre of things when investing, he said.


Mr Nicolas Firzli

Nonetheless, he believes that long-term investors should not be distracted by short-term volatility but should instead be on the lookout for buying opportunities when the market sells off.


L-R: Messrs Ken Atchison and Kevin Jeffrey

The ratings equation

Ratings are an important consideration in the investment decision-making process and a panel discussion involving analysts from Fitch, S&P and Moody's touched on a whole raft of issues.

Not surprisingly, China was a dominant theme of the discussion, and the analysts believe that the regulatory push in Beijing in recent years has resulted in greater transparency on the part of Chinese companies.


Ms Eunice Tan

S&P sector lead for insurance ratings Eunice Tan pointed to the fact that insurers in China now have to file regular asset-liability mismatch reports as a sign of increased reporting standards.

She also pointed to the fact that major Chinese insurers such as Ping An and China Life have been listed outside of China for a number of years now, which suggests that they are prepared for their books to be scrutinised.


Mr Siew Wai Wan

On the issue of investing in unrated securities, Fitch Ratings senior director Siew Wai Wan said that rating agencies would typically try to understand the reasons why an insurer wanted to invest, for instance, in unrated bonds, the risk management mechanism in place and whether such an investment is a one-off strategy or part of a longer-term plan.

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