Reframing the Insurance Investment Office: How Asia-Pacific Insurers Lose Up to 400 bps and How to Win It Back.

Why outdated mandates, siloed teams, and rigid execution are draining value and what best-in-class insurers are doing differently.

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Executive Summary

Across the Asia-Pacific region, insurance companies face mounting pressure to deliver performance, capital efficiency, and regulatory compliance in a volatile market environment. However, the investment function within many insurers remains framed as a cost centre: operational, reactive, and compliance-driven. This perception undermines strategic alignment between assets and liabilities and leads to missed opportunities in performance enhancement, capital relief, and proactive risk management.

This paper critically examines the current state of insurance investment governance across Singapore, Southeast Asia, and Australia, highlighting widespread inefficiencies in how FX hedging, duration extension, collateral management, risk reporting, and execution policies are handled. Drawing from first-hand market observations and international frameworks such as MAS RBC 2, APRA LAGIC, and Solvency II/ICS, we demonstrate how outdated approaches result in persistent performance drag and overcapitalisation.

Using six real-world case studies, spanning derivative mismanagement, inefficient execution, and passive risk practices, the paper contrasts industry norms with best-practice models from global peers, asset managers, and hedge fund governance frameworks. It also reviews supporting literature from the Institute and Faculty of Actuaries (IFoA), Society of Actuaries (SOA), and leading consultancies including McKinsey, BCG, and PineBridge Investments.

We conclude with a pragmatic framework for transforming the insurance investment office into a value-creating function. Recommendations include reengineering governance models, embracing active risk management, leveraging treasury integration, and enhancing actuarial collaboration across asset-liability management.

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Introduction

The investment function in insurance companies has traditionally operated under the shadow of compliance, solvency, and regulatory alignment. In much of Asia-Pacific, particularly Singapore, Australia, and parts of Southeast Asia, the investment office is often viewed as an administrative or back-office function, with its primary mandate being the preservation of capital and avoidance of regulatory breaches. While understandable in a post-crisis regulatory environment, this approach has led to a culture where performance is deprioritised, innovation is discouraged, and accountability for investment outcomes is diluted across multiple external and internal actors.

This paper challenges that model. It argues that viewing the investment office purely as a cost centre weakens insurers' ability to optimise returns and leads to excessive capital holdings, poor risk integration, and value erosion through inefficient execution and asset allocation decisions. At a time when the economic environment is becoming more volatile, interest rates are fluctuating, and capital requirements are tightening, insurers can no longer afford to treat the investment function as passive or secondary.

Instead, this paper proposes reframing the investment office as a capital catalyst. A strategically integrated function that drives value through active risk management, tactical flexibility, and structural alignment with liabilities and capital rules. Drawing on case studies from global leaders and applying those insights to standard practices across the Asia-Pacific region, we explore how insurers can reimagine their investment governance, enhance performance attribution, and unlock efficient and sustainable risk-adjusted returns.

The following sections will unpack how prevailing practices such as FX hedging, collateral management, duration extension, and execution policy are symptomatic of a broader misalignment between investment intent and organisational design. Through this critique, we establish the case for reform, grounded in practical examples and culminating in a five-part framework for transformation.

Framing the Investment Function: Cost or Catalyst?

Legacy Structure: Compliance First, Performance Later

Solvency preservation and risk minimisation have shaped the traditional role of insurance investment functions. In many Asia-Pacific markets, regulatory requirements, such as RBC 2 in Singapore or LAGIC in Australia, have encouraged insurers to adopt overly conservative investment postures. While this conservative strategy supports regulatory compliance and capital preservation, it often comes at the cost of yield and flexibility.

As a result, insurers tend to hold large allocations to investment-grade fixed income instruments, structured along static asset allocation models rarely revisited outside strategic reviews. There is limited appetite for active risk-taking, duration management, or dynamic hedging, even when market conditions suggest clear opportunities.

Key Implications:

- Heavy concentration in low-yielding fixed income, resulting in compressed portfolio yields
- Low responsiveness to macroeconomic or credit market shifts
- Asset allocation structures that do not reflect capital efficiency or relative value

The opportunity cost of this risk-averse structure is profound. Insurers forego enhanced returns, pay excess capital charges for inefficient asset mix, and fail to monetise the optionality inherent in changing market conditions.

Delegation and Organisational Distance

Many insurers have adopted outsourced CIO (OCIO) models to manage complexity and cost, or rely on multiple external fund managers. While these structures provide scale and efficiency, they often result in a disconnect between portfolio construction and the insurer's liabilities, capital structure, and risk profile.

Observed Consequences:

- Delegated asset managers optimise for benchmark-relative performance, not solvency-adjusted returns
- Asset-liability mismatch persists because investment mandates are not aligned with capital models
- There is no internal feedback loop to assess how investment choices impact enterprise value

This delegation model also introduces fee leakage. Layered management structures (consultants, managers, platforms) consume a meaningful share of gross return, reducing net investment income without improving alignment.

Performance Attribution Blind Spots

While many insurers monitor absolute return and benchmark-relative metrics, few have embedded performance frameworks that reflect the true value of the investment function. Sophisticated internal metrics such as:

- Risk-adjusted return on capital (RAROC)
- Economic Value Added (EVA)
- Capital-consumption efficiency

Are either not used or not linked to strategic decision-making. This results in:

- Misaligned incentives: Managers are rewarded for nominal return, not capital-aware outcomes
- Limited visibility: Boards and regulators cannot evaluate how investment is improving solvency, liquidity, or resilience
- Strategic inertia: Investment strategy remains unchanged even when economic or capital conditions shift dramatically

To move beyond this state, insurers must treat investment as a source of enterprise value creation, not merely income generation. This requires performance metrics that reflect contribution to capital position, surplus growth, downside protection and governance structures that respond to them.

These blind spots are not just theoretical flaws; they have real financial consequences. Based on internal benchmarking across regional markets and supported by case studies in this paper, we estimate that outdated and passive investment practices contribute to an annual performance drag of between 100 and 400 basis points, contingent on the sophistication of the insurer's investment framework. Less mature offices, often bound by rigid mandates and fragmented oversight, sit at the higher end of this spectrum. In contrast, integrated offices that blend actuarial insight, treasury execution, and active portfolio management demonstrate significantly better net investment outcomes on a capital-adjusted basis.

Case Studies: Anatomy of Structural Inefficiency

FX Hedging – Mechanistic Execution, Missed Performance

Currency hedging is critical in insurance portfolios across Asia-Pacific, particularly in Singapore, where local insurers often hold significant exposures to USD-denominated fixed income instruments. These exposures are hedged primarily for capital preservation, regulatory alignment, and to minimise the balance sheet's foreign exchange (FX) volatility. Yet, how FX risk is managed is often transactional, rigid, and poorly integrated with the broader investment and ALM framework. The outcome is suboptimal, both from a return standpoint and a capital and liquidity perspective.

The Status Quo: Rolling FX Swaps Without Active Management

Most Singaporean insurers hedge their USD-denominated assets by rolling 3-month FX swaps into Singapore dollars (SGD). These swaps are typically entered into quarterly in batch-style execution windows and left to mature without any further monitoring or intervention. At expiry, the hedges are closed out, and a new set of swaps is entered, essentially resetting the process. While simple, this routine hedging practice introduces several structural inefficiencies.

Lack of P&L Realisation

One of the most significant shortcomings is failing to monitor and manage mark-to-market (MTM) positions. Hedges that move significantly "in the money" during the swap term are not monetised. In many cases, favourable FX movements can lead to unrealised gains on the hedge position. Still, these are neither realised nor utilised. They expire and are replaced by new trades. This practice ignores that MTM gains can be harvested through unwind and re-entry strategies, mainly when market expectations around interest rate differentials or USD/SGD flows shift.

No Tactical Overlay or Optionality

Swaps are executed strictly at market using vanilla forwards, with no attempt to finesse execution timing or embed any optionality. The process is often governed by rigid policies that require best execution via competitive dealer quotes, but with no flexibility to pursue layered execution or implement defensive structures such as zero-cost collars.

By foregoing optionality, insurers miss the opportunity to:

- Add convexity to the FX hedge profile
- Protect against adverse tail risk movements

- Monetise volatility premiums in the FX options market

This is especially relevant in volatile or trendless markets where options can be structured at little or no cost (e.g. through collars) while offering asymmetric risk protection.

Poor Collateral and Liquidity Planning

Collateral for FX swaps, increasingly subject to variation margin requirements under global uncleared margin rules (UMR), is typically sourced reactively from cash or saleable assets in the bond portfolio. There is rarely an integrated view of collateral demand across instruments, nor an effort to manage margin obligations strategically through tiered collateral pools or optimised CSA terms.

This fragmented approach leads to several pain points:

- Cash drag from idle balances held to cover potential margin calls
- Unplanned asset sales that disrupt portfolio yield or duration
- Missed opportunities to use repos, Money Market Funds (MMFs), or broader collateral baskets

Additionally, there is often no treasury-led collateral dashboard or cashflow projection to anticipate margin needs in volatile FX regimes, leaving insurers vulnerable to liquidity squeezes.

A Better Model: Active, Integrated, and ALM-Aware

To move beyond this transactional paradigm, insurers must reframe FX hedging as a dynamic performance lever that can be protective and accretive. Several enhancements can be made across execution, monitoring, and governance:

a. Dynamic P&L and MTM Management

Insurers should implement systems and policies that track FX hedge MTM daily and allow for monetisation of gains when they exceed defined thresholds. This enables:

- Realisation of profits that would otherwise roll off
- Reinvestment of gains or redeployment into new hedges
- Dynamic calibration of hedge ratios based on performance

Such approaches are common among institutional investors such as Canadian pension plans and global asset managers, where FX is treated as both a risk and a return opportunity.

b. Optionality as a Hedge Enhancer

Zero-cost collars, one-touch options, and forward-plus structures can be layered over core FX swap positions to provide downside protection and enhance convexity. For instance, pairing a 3-month FX swap with a put option on USD/SGD (financed by selling an OTM call) creates a collar that allows participation in favourable SGD strengthening while capping the downside.

Importantly, these overlays can be structured to maintain regulatory hedge effectiveness under local RBC regimes while adding incremental alpha to the portfolio.

c. Collateral-Aware Execution and Integration

FX hedging should be closely coordinated with the treasury and collateral management teams. This involves:

- Forecasting margin needs across derivatives and aligning funding windows
- Negotiating CSA terms that include MMFs, government bonds, or broad asset eligibility
- Integrating hedge execution into the broader liquidity ladder of the insurer

In some global insurers, collateral optimisation desks jointly manage FX, rates, and credit margin, with tools that dynamically allocate the cheapest-to-deliver collateral for each exposure. While this level of sophistication is still rare in Asia, there is growing justification for a step in that direction.

d. Alignment with ALM Objectives

Finally, FX hedging should be embedded within the insurer's ALM model. Rather than hedging 100% of foreign currency exposure indiscriminately, insurers can:

- Hedge cashflows rather than notional principal
- Use dynamic hedge ratios based on liability currency sensitivity
- Time hedge rollovers to coincide with asset or premium inflows

This creates a more flexible, capital-efficient, and liability-matched FX strategy that actively supports solvency rather than simply mitigating noise.

Collateral Management – Missed Yield, Operational Drag, and One-Sided Agreements

Collateral management is an increasingly important function for insurers using derivatives, yet it remains one of the most neglected. In many Asia-Pacific institutions, collateral is viewed narrowly as an operational task, simply the administrative response to a margin call. This lack of strategic perspective results in yield erosion, operational inefficiencies, and asymmetrical risk-sharing with counterparties.

Missed Yield, One-Sided Agreements - Inefficiencies in Practice

In standard practice, many insurers accept off-the-shelf ISDA and CSA (Credit Support Annex) agreements provided by banks without rigorous negotiation. The terms in these documents, including thresholds, eligible collateral types, and haircut schedules, are typically set in favour of the dealer. This often leads to unnecessarily restrictive collateral eligibility (e.g. cash only), low thresholds (triggering frequent calls), and punitive haircuts on higher-yielding instruments.

To meet these margin calls, insurers tend to use the path of least resistance: they sell corporate bonds or raise cash via the sale of short-duration instruments. While expedient, this often results in:

- Realised losses on fixed income portfolios
- Loss of income on longer-duration or higher-yielding instruments
- Disruption to the broader asset allocation strategy

Compounding this is the lack of real-time visibility. Many investment teams are unaware of the daily or forward-looking collateral requirements stemming from their FX and interest rate hedges. Treasury teams may manage margin with spreadsheets or daily emails, a fragile process that does not scale under market stress.

Operational Drag - Strategic Alternatives Collateral Management

Strategic collateral management requires a paradigm shift from reactive cash sourcing to proactive collateral optimisation. Several concrete measures can achieve this.

First, insurers should develop a “collateral ladder”**:** a tiered structure of assets held for immediate, short-term, and long-term margin needs. This could include cash buffers, government bond ETFs, money market funds (MMFs), and pre-positioned assets in repo facilities. A well-structured ladder allows margin calls to be met with minimal market disruption.

Second, negotiating CSA terms must become standard practice. Acceptable reforms include:

- Broadening eligible collateral types (e.g. corporate bonds with adequate ratings, government securities)
- Understanding the pricing implications of the various eligible collateral types
- Introducing minimum transfer amounts and thresholds
- Creating bilateral variation margin schedules to avoid one-way exposure

Third, real-time dashboards integrating portfolio, cash, and collateral analytics can empower treasury teams to anticipate and plan margin flows more effectively. Global insurers already employ these tools to measure collateral velocity, identify the cost of funding, and reduce friction between the investment and treasury arms.

Ultimately, collateral is capital, and how it is managed should reflect this. Optimising collateral policy and operational integration reduces drag and can unlock performance, protect duration, and safeguard liquidity.

Duration Extension – Tools That Misalign with the Curve

Matching the duration of insurance assets to that of liabilities is a foundational principle of ALM (Asset-Liability Management). Most insurers face a natural mismatch: long-dated liabilities, especially in life insurance, are often far longer in duration than available assets in public markets. Derivatives are therefore used to extend asset duration synthetically.

However, the tools used and how they're managed frequently introduce risks and inefficiencies.

The Problem with Interest Rate Swaps

The go-to instrument for duration extension is the vanilla interest rate swap (IRS), which converts fixed-rate bond cashflows into floating exposures, or vice versa. While standardised and liquid, these are priced and settled using the OIS (Overnight Indexed Swap) curve. Yet in many regulatory regimes, such as MAS RBC 2 or APRA LAGIC, liabilities are discounted using government bond curves.

This curve mismatch introduces basis risk. Even if the IRS duration matches the liability duration, the underlying discounting mechanics differ, creating P&L volatility that is not easily hedged or capital neutral.

Further, IRS contracts involve periodic reset of the floating leg (usually every 3 or 6 months), leading to:

- Cashflow variability not aligned with premium or liability patterns
- Potential misestimation of cash needs during periods of rate stress
- Challenges in scenario and stress modelling of future exposures

Missed Opportunities in Instrument Design

Despite these drawbacks, many insurers persist with swaps due to habit, simplicity, or lack of internal expertise with alternatives. This results in static hedge books and derivative overlays that are never reviewed, monetised, or restructured.

In contrast, bond forwards, agreements to buy or sell government bonds at a future date, offer a more aligned approach. They:

- Are based on the same curve as liability discounting
- Provide a known forward rate at inception
- Avoid periodic cashflow resets
- Are margin efficient when managed with a transparent collateral policy

Similarly, bond futures (if available in your market) offer low-cost and highly liquid duration extensions with minimal operational overhead. Their use allows insurers to adjust hedge ratios frequently and cheaply, a key benefit when managing liability convexity.

Towards a Dynamic Hedge Policy

Modern insurers should move away from the "set-and-forget" model. A forward-looking duration strategy includes:

- Periodic hedge effectiveness reviews
- Valuation sensitivity analysis
- Structured monetisation of out-of-the-money or underperforming trades

Leading global insurers run ALM overlays incorporating swap ladders, callable swaps, bond forwards, and futures, all managed within a central treasury and ALM function. These overlays are dynamic, reviewed quarterly, and adjusted based on solvency triggers, interest rate views, and capital charges.

A robust governance model allows discretion within bounds, enabling the investment function to act tactically while remaining aligned with actuarial strategy.

Leaving Alpha on the Table - No Use of Relative Value or Optionality

In pursuing prudence and regulatory alignment, many insurers in Asia-Pacific have locked themselves into static investment strategies that are overly reliant on benchmark adherence and overly constrained by policy mandates. While this minimises tracking error, it also eliminates the possibility of harvesting relative value. This strategy does not necessarily add directional risk, but seeks to improve returns through arbitrage, curve positioning, or volatility monetisation.

This lack of tactical flexibility has real consequences. In fixed-income portfolios, alpha can be generated through positioning across credit curves, maturity buckets, geographic basis, and liquidity premiums, none of which require an increase in credit risk. Yet such trades are rarely pursued.

Why Relative Value is Missing

Most insurers operate under tightly constrained mandates. Asset managers, even internal ones, are often given strict guidelines that mirror index weights, with little room for deviation. Governance structures that favour compliance and benchmarking over performance attribution reinforce this.

In-house investment teams are frequently composed of traditional portfolio managers without structuring experience or are so small that deeper asset allocation insight is challenging to implement. Tactical ideas, such as taking advantage of bond roll-down, credit basis, or dislocations in swap spreads, are considered speculative rather than strategic.

There is also limited use of derivative overlays that allow for capital-efficient expressions of relative value. For example, sweeteners and flatteners in the swap curve, credit default swap index overlays, or options on duration trades are all tools used by global peers but are generally absent in local insurer portfolios.

The Role of Optionality

Optionality, the strategic use of options to shape portfolio outcomes, is virtually absent in most regional insurance investment functions. The aversion stems from two misconceptions:

1. That options are speculative
2. That options are capital-intensive

Options can be used conservatively to cap downside, introduce asymmetric payoffs, or monetise volatility risk premia**,** especially in the FX and rates space.

Consider a few simple examples:

- Using receiver swaptions to protect against interest rate spikes while holding long-duration bonds
- Embedding zero-cost collars in FX hedging strategies to create defined payoff profiles without net premium outlay
- Selling covered calls or put spreads on low-volatility bonds to enhance income while limiting downside

These strategies do not involve taking risks but rather managing them dynamically, shaping outcomes to complement liability and solvency profiles.

What Better Could Look Like

Insurers seeking to add relative value should start by creating tactical risk budgets**.** These controlled mandates, capped by notional exposure, tracking error, or capital consumption, allow portfolio managers to deviate from benchmarks for defined periods or under specified market conditions.

Next, they should establish derivative usage frameworks with pre-approved structures and counterparties. This will reduce operational friction and ensure compliance with regulatory capital treatment.

Finally, regular performance attribution should be introduced that distinguishes:

- Beta return from benchmark
- Structural yield enhancement
- Tactical relative value and optionality contributions

Insurers can move from benchmark hugging to intelligent capital deployment, without breaching risk boundaries or solvency expectations.

Execution – The High Cost of Rigid 'Best Execution' Rules

Execution is often treated as a procedural task, an afterthought once investment decisions are made. Yet how trades are executed can significantly affect performance, especially in fixed-income and OTC derivatives, where liquidity is episodic and pricing is opaque.

Insurers in Singapore and across Asia-Pacific frequently adopt execution policies modelled on MiFID II, requiring soliciting at least three dealer quotes and selecting the best price. While designed to ensure fairness and prevent abuse, this approach can become inefficient, especially for large, illiquid, or sensitive trades.

Process Over Outcome: When Best Execution Fails

The three-quote rule works well for:

- Liquid, exchange-traded instruments (e.g. equities, futures)
- Small notional tickets in tight bid-offer markets
- Straightforward FX spot or short-dated swaps

However, when applied to:

- Large notional bond trades
- Long-dated swaps or bond forwards
- Emerging market exposures
- Sensitive strategic transactions (e.g. M&A-related hedging)

It becomes counterproductive.

Dealers can often infer the insurer's intent from repeated RFQS and adjust pricing accordingly, widening spreads or quoting less aggressively. In effect, the insurer signals its hand to the market. Worse, dealers may share these insights internally or with their own clients, creating execution leakage that further disadvantages the insurer.

This practice creates what is known as information leakage and market signalling risk, risks well understood by sophisticated hedge funds and sovereign wealth funds but underappreciated in insurance contexts.

The Cost of No Discretion

Most internal execution teams at insurers are not permitted to use:

- Limit orders that would cap slippage

- Stop orders to protect on the downside
- Time-weighted execution algorithms to manage market impact
- Single-dealer negotiation when necessary for sensitive transactions

Instead, they are bound by rigid compliance policies that prioritise audit trails over outcomes. While this may be defensible from a governance standpoint, it results in measurable basis point losses, often termed "implementation shortfall", that accumulate over hundreds of trades per year.

Modern Execution Playbooks

Leading asset managers and sophisticated insurers segment execution approaches by asset class and context. They maintain execution playbooks that define:

- Product-specific execution methods (e.g. auctions, RFQs, direct negotiation)
- Notional thresholds for multi-dealer vs single-dealer protocols
- Exceptions for time-sensitive or strategic trades
- Use of transaction cost analysis (TCA) to measure and refine execution quality

They also employ trader discretion within boundaries, allowing execution professionals to optimise across time, venue, and dealer relationships.

For insurers, adopting these practices could:

- Reduce the cost of execution by 5–50 basis points, depending on the product
- Improve relationship pricing with core dealers
- Allow strategic trades to be executed without moving the market

Recommendation: Rule Book Flexibility

Execution policy should be redefined from a rulebook to a framework that allows process consistency but adapts to market realities. Compliance should focus on documented rationale and post-trade review, rather than pre-trade prescription.

Insurers should also implement TCA systems to benchmark trades, identify slippage, and adjust strategies accordingly. In doing so, they reclaim one of the most controllable sources of investment alpha, which is efficient implementation.

Passive Risk Reporting – No Feedback, No Foresight

Risk management sits at the heart of insurance, from underwriting and pricing to reserving and capital modelling. Yet when it comes to investment risk, most insurers have failed to extend this strategic mindset into monitoring, managing, and acting on portfolio risks.

Instead, the approach is largely passive: risk is measured, reported, and reviewed but not owned or acted upon dynamically. The investment office is accountable for returns, and the risk office is accountable for metrics. But no one is truly accountable for active investment risk management, that is, shaping portfolio exposures based on forward-looking risk-reward dynamics.

The Status Quo: Static Risk as a Compliance Function

Most Asia-Pacific insurance firms track investment risk via monthly or quarterly reports. These typically include:

- Value-at-Risk (VaR)
- DV01 or modified duration
- Sensitivity to parallel shifts in rates or FX
- Scenario results (e.g. 100 bps rate rise)

The risk function compiles these metrics and distributes them to stakeholders. They are reviewed at investment committees or board meetings but rarely translate into actionable portfolio changes.

The result is a compliance-first culture, where risk reporting becomes a backward-looking artefact, rather than a strategic input into decision-making.

Worse still, many risk systems are siloed from investment platforms. This means portfolio managers cannot run scenario tests on proposed changes or see how current exposures perform under emerging macro or geopolitical shocks. Actuarial and risk teams may run simulations but are often detached from front-line investment execution.

Why This Matters: Risk Without Action Is Value Leakage

Passive risk monitoring creates several structural problems:

- Missed Opportunities for De-risking**:** During market stress, insurers are often slow to reduce risk because no one is authorised or incentivised to do so dynamically.

- Unhedged Risk Accumulation**:** Risk exposures (e.g. curve steepening, credit spread widening) accumulate over time and are only "discovered" in post-mortem reviews.
- Capital Inefficiency: Without real-time insight, insurers may over-allocate to low-risk assets to "play it safe," rather than using dynamic risk budgeting or overlays to control tail exposures.

This is a missed opportunity in a capital-constrained environment. A fundamental competitive advantage is the ability to risk-budget actively, allocating solvency capital toward assets and strategies with the best risk-return trade-offs.

A Better Model: Active Risk as a Performance Enabler

Leading institutional investors treat risk not as a constraint, but as a strategic input into asset allocation. Their frameworks are built around the following principles:

a. Risk Ownership Is Shared

Rather than isolating risk in a standalone team, these organisations embed risk professionals within investment teams or require investment staff to own risk alongside return. Investment committees discuss capital-at-risk, marginal risk contribution, and stress test results alongside performance metrics.

This joint ownership fosters a more holistic culture where risk is not feared but priced, managed, and used to guide portfolio construction.

b. Dynamic Risk Budgeting

Dynamic risk budgeting means assigning a risk "budget" (e.g. 100bps VaR, or X% of economic capital) to each strategy or asset class and adjusting it based on market conditions, liquidity, or solvency constraints.

For example:

- In periods of high volatility or tight solvency, the budget is reduced and portfolios de-risk.
- When spreads widen or carry improves, risk is reallocated to more efficient exposures.
- Tactical overlays (e.g. swaptions, FX collars) are used to manage exposures at the margin.

This approach allows the insurer to be proactive rather than reactive, controlling the portfolio's risk profile without reallocating capital entirely.

c. Scenario-Based Playbooks

Rather than relying solely on statistical models, best-in-class insurers use playbooks, pre-agreed actions tied to macro or market scenarios.

For instance:

- "If US rates rise by 75bps, rotate duration hedge from swaps to bond forwards."
- "If SGD strengthens beyond 5% in 3 months, unwind partial FX hedges and implement collars."
- "If IG spreads widen by 50bps, deploy pre-approved tactical risk into spread sectors."

This ensures speed, consistency, and discipline, and prevents decision paralysis when markets are volatile.

d. Technology and Transparency

True active risk management requires technology. Portfolio managers should have access to:

- Real-time risk dashboards
- Stress test tools that show P&L impact across multiple shocks
- Solvency-adjusted return metrics (e.g. RAROC, economic VaR)

These tools allow for **"what-if" scenario analysis** in investment meetings, making the risk discussion forward-looking rather than forensic.

The Role of the Actuary – Right Culture

Actuaries can play a pivotal role in bridging investment and risk. With a deep understanding of capital models, liability sensitivities, and stress frameworks, actuaries are uniquely positioned to help translate regulatory solvency concepts into practical portfolio guardrails.

They can:

- Define solvency-linked rebalancing thresholds
- Align asset allocation with liability sensitivities
- Build capital efficiency metrics that drive better investment decisions

By collaborating with investment and risk teams, actuaries can embed capital-aware decision-making into the daily rhythm of portfolio management.

Cross-Market Insights – What Global Peers Are Doing Better

Insurance portfolios globally face the same headwinds: persistent inflation, rising rates, regulatory scrutiny, and a growing need to optimise capital. However, not all insurers respond equally. While many Asia-Pacific firms remain locked in rigid, compliance-first investment governance, leading global peers have redefined how investment offices operate, transforming them into engines of capital efficiency and long-term value creation.

This section compares the typical Asia-Pacific approach with more advanced models in Canada, the United Kingdom, and selected parts of Continental Europe. The goal is not to promote wholesale adoption but to highlight principles and tools that can be localised to enhance strategic effectiveness.

Canada – The Integrated ALM and Treasury Powerhouse

Canada's life insurers and public pension plans are global benchmarks in ALM sophistication and integrated portfolio construction. Institutions like Sun Life, Manulife, and large public pensions (e.g. HOOPP, Ontario Teachers') operate on the principle that investment, actuarial, and risk functions must be fully integrated.

Investment teams in these organisations are not merely asset selectors. They own:

- Liability sensitivity models
- Capital-at-risk metrics
- Real-time hedge effectiveness frameworks

Derivatives are used not just for risk mitigation, but for:

- Managing curve and credit exposures dynamically
- Capital-efficient leverage
- Liquidity smoothing
- Funding and collateral transformation

Internal teams include structurers, capital markets traders, actuaries, and risk professionals, all working within a single governance and accountability framework. Many firms manage their derivative collateral, CSA negotiation, and funding policies in-house, with daily dashboards that blend cash, capital, and credit exposures.

Canadian institutions also employ total portfolio thinking, the concept that performance should be judged not just on return but also on capital consumption, risk contribution, and funding alignment.

United Kingdom – Capital Constraints as Innovation Drivers

Solvency II, introduced in the UK and Europe post-GFC, was initially criticised for its complexity. But over time, it has forced insurers to become capital-aware investors. In the UK, life insurers such as Aviva and Legal & General have turned capital regulations into an opportunity, pioneering Matching Adjustment (MA) portfolios and internal capital models to unlock return with capital efficiency.

These firms have adopted advanced strategies, including:

- Curve-relative hedging using bond forwards and swaptions
- Illiquidity premium capture within MA portfolios
- Credit curve overlays that match liability sensitivity rather than absolute yield
- Dynamic duration hedging based on stress-adjusted capital efficiency

Governance structures in UK insurers are also distinctive. Investment committees feature multiple second-line stakeholders, including internal audit and actuarial capital leads. Risk budgeting and scenario modelling are routine. Importantly, tactical risk budgets are not taboo; they are structured, monitored, and reported alongside SAA performance.

The UK market also features structured product overlays and capital-efficient private assets, which are managed with sophisticated internal models to reduce standard formula capital drag.

Europe – Holistic Risk-Return-Capital Integration

In markets like France, the Netherlands, and the Nordics, insurers have made significant advances in integrating economic capital, investment strategy, and actuarial forecasting.

A few standard features:

- Scenario-based ALM dashboards are used monthly in investment meetings
- Climate and ESG risks included in capital-adjusted return projections
- Internal models calibrated to allow for flexibility in credit, duration, and FX overlays
- Multi-curve discounting used in tandem with Solvency II shock scenarios to optimise hedge layers

Nordic insurers are leaders in risk budgeting by strategy, allocating economic capital not just to asset classes but to active positions. For instance, a volatility-selling strategy or an option-collared equity exposure will have its own internal capital requirement and risk-return attribution, updated quarterly.

Execution models in Europe also allow single-dealer discretion when justified, with post-trade Transaction Cost Analysis (TCA) ensuring compliance without neutering trade quality. These practices contrast with Asia-Pacific's often rigid three-quote rule and pre-trade documentation requirements.

Asia-Pacific – Cautious Governance, Structural Lag

In comparison, most insurers in Singapore, Malaysia, Thailand, and Australia share the following features:

- High reliance on external asset managers or consultants (OCIOs, multi-managers)
- Siloed treasury, actuarial, and investment functions
- No internal derivative structuring or collateral expertise
- FX and duration hedging done mechanically, without dynamic monitoring
- Execution rules that emphasise fairness over efficiency
- Minimal use of options or relative value overlays
- Investment policies focused on static benchmarks, not capital-adjusted return

While this conservative posture served well in a low-rate, low-volatility era, it is increasingly misaligned with the demands of modern capital regimes and volatile macro conditions.

Insurers across Asia-Pacific are overpaying for execution**,** over-allocating capital to underperforming exposures**,** and missing out on risk-adjusted performance that global peers are systematically harvesting.

The Opportunity: Leapfrog, Don't Lag

The good news is that Asia-Pacific insurers are not structurally constrained. They are culturally and institutionally cautious but not incapable. Many have the scale, staffing potential, and capital base to adopt global best practices, provided they invest in governance, tools, and talent.

What is needed is not mimicry but adaptation:

- Using risk-budgeted overlays instead of full internal models
- Creating simplified playbooks that align execution, hedge, and capital intent
- Negotiating smarter CSAs, not building full collateral desks
- Training actuaries and investment professionals in integrated capital-return analytics

With the right leadership, insurers in this region can leapfrog incremental change and adopt frameworks that global firms took decades to develop.

A Framework for Reform: From Cost to Catalyst

Transforming the insurance investment office from a passive function into a capital catalyst requires more than new products or policies. It requires a foundational rethink of governance, accountability, culture, and risk integration. Below is a five-part reform blueprint based on global best practices and tailored to the realities of the Asia-Pacific context.

Governance and Accountability

Insurers must start by redefining the mandate of the investment office. It should explicitly include capital efficiency, risk-adjusted return generation, and dynamic ALM alignment.

Investment committees should include representatives from actuarial, treasury, and risk teams. Decision-making should be segmented across strategic, tactical, and operational layers, with clear thresholds for discretion and escalation.

Recommendations:

- Formalise capital efficiency KPIs (e.g. return on required capital, spread-adjusted solvency)
- Establish cross-functional working groups for scenario planning and hedge review
- Implement performance attribution linked to solvency metrics, not just benchmarks

Talent and Capability Building

The shift to a more active, integrated investment model requires a step change in internal skills. Insurers must invest in people who understand markets, risk, structuring, and regulation. These professionals should be empowered to propose and execute overlays, evaluate derivative strategies, and challenge external advisors.

Recommendations:

- Hire professionals from banks, hedge funds, or sovereign wealth funds
- Build a structuring desk within the investment function
- Cross-train actuaries in capital markets and treasury in ALM

Tools and Infrastructure

Modern investment governance requires real-time insight into risk, capital, and liquidity. Most insurers still rely on legacy spreadsheets and static reports. A basic but robust infrastructure upgrade is needed.

Recommendations:

- Deploy cash and collateral dashboards
- Integrate ALM engines with portfolio analytics
- Use TCA tools to benchmark execution quality

Policy and Execution Overhaul

Investment policies should empower discretion, not suppress it. Current frameworks often ban the use of options, require three quotes for every trade, or cap exposures based on outdated limits.

Recommendations:

- Rewrite execution policies by instrument and liquidity tier
- Introduce overlay authorisation protocols for derivatives
- Permit tactical deviation from SAA within risk-budgeted bands

Dynamic Risk and Capital Integration

Perhaps the most transformative change is the integration of capital and risk analytics into real-time investment decision-making. Rather than measuring risk post-hoc, insurers must embed scenario planning and dynamic risk limits into portfolio construction.

Recommendations:

- Tie rebalancing thresholds to solvency triggers
- Model expected shortfall and capital-at-risk per trade
- Build playbooks for rising rates, widening spreads, or currency devaluation scenarios (and vice versa)

Conclusion: The Time for Change is Now

The investment office in most insurers today is underpowered, not by regulation, but by mindset. By framing investment strategy as a compliance function rather than a strategic lever, insurers forgo meaningful performance, overcapitalise their balance sheets, and leave themselves unprepared for volatile markets.

This paper has illustrated the structural and behavioural causes of this underperformance, from outdated FX and duration strategies to flawed execution and siloed governance. It has also laid out a clear reform agenda based on international best practices and realistic implementation steps.

Crucially, the cost of inaction is quantifiable. Our analysis shows that current poor investment governance and passive execution models result in a 100- to 400-basis-point drag on performance annually, depending on the sophistication and integration of the insurer's investment office. This gap significantly erodes policyholder value, surplus growth, and capital efficiency.

The call to action is clear: investment must evolve. Insurers can no longer afford to treat their portfolios as static bond books managed by external advisors. The investment function should be at the heart of enterprise value, integrated with actuarial insight, capital strategy, and scenario-based risk management.

With their unique perspective on liabilities, capital models, and systemic risk, actuaries are perfectly positioned to lead this transformation. By stepping into the investment conversation focusing on alignment, efficiency, and forward-looking governance, they can help reframe the insurance investment office from a cost centre to a capital catalyst.

About Para Bellum Advisors

Para Bellum Advisors is an independent institutional advisory firm that helps investment teams boost returns, unlock capital, cut performance drag, and strengthen portfolio resilience. We focus on derivatives, structuring, capital efficiency, and real-world implementation – delivering clarity, execution discipline, and measurable outcomes. Our purpose is simple: to equip investment teams with the frameworks to execute with clarity and efficiency, regardless of size or structure.

We work with teams across Asia–Pacific, Singapore, and Hong Kong, partnering with CIOs, portfolio managers, and senior risk leads who need hands-on practitioner expertise across FX, rates, credit, equity, and volatility markets. Our clients include private credit and infrastructure investors, project-finance specialists, family offices, emerging hedge funds, and boutique asset managers – along with larger institutions seeking targeted structuring capability without adding headcount.

Our advisory centres on four core offerings:

- **Para Bellum Hedge Rebuild™** – The design and redesign of cross-asset hedge programmes to minimise bleed, tighten execution, and ensure hedges deliver optimally on their objectives.
- **Alpha Overlay Engine™** – A portable-alpha and derivatives-based return enhancement sleeve that runs alongside existing portfolios.
- **Capital Drag Audit™** – A detailed assessment of liquidity, collateral, margin, and execution friction across the portfolio lifecycle, identifying trapped capital and quantifying the cost of inefficiency.
- **Structuring-as-a-Service™** – An embedded structuring function providing trade design, pricing, risk-transfer solutions, documentation support, and execution oversight for teams without in-house capability.

We also offer targeted mini offers for specific institutional needs:

- **Rapid Diagnostic™** – A fast assessment highlighting high-impact inefficiencies across hedging, drag, capital, and execution.
- **Governance Pack™** – Clear, actionable decision frameworks for committees and boards evaluating derivative use or hedge programme changes.
- **Crisis Playbook™** – A practical, step-by-step monetisation and execution protocol for stressed-market conditions.

Across all work, we apply one principle: **no unnecessary complexity, no irrelevance – just structures and strategies that improve outcomes materially.**

We also support bespoke structuring and special-situation mandates for unique portfolio, risk, or execution challenges.

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Explore our service offerings at **www.offers.parabellumadvisors.com**

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