



PARA BELLUM ADVISORS

PRACTITIONER PAPER

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Why outdated mandates, siloed teams, and rigid execution are draining value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

By Mike Duncan, Para Bellum Advisors

Version 3, July 2025

www.parabellumadvisors.com

Informational only
Not investment advice

Executive Summary	3
1. Insurance Investment Function	4
2. Framing the Investment Function: Cost or Catalyst?.....	5
2.1 Legacy Structure: Compliance First, Performance Later.....	5
2.2 Delegation and Organisational Distance	5
2.3 Performance Attribution Blind Spots.....	5
3. Case Studies: Anatomy of Structural Inefficiency	7
1: FX Hedging – Mechanistic Execution, Missed Performance.....	7
2: Collateral Management – Missed Yield, Operational Drag, One-Sided Agreements	7
3: Duration Extension – Tools That Misalign with the Curve.....	8
4: Leaving Alpha on the Table – No Use of Relative Value or Optionality.....	8
5: Execution – The High Cost of Rigid "Best Execution" Rules	9
6: Passive Risk Reporting – No Feedback, No Foresight.....	9
4. Cross-Market Insights: What Global Peers Are Doing Better	11
4.1 Canada: The Integrated ALM and Treasury Powerhouse	11
4.2 United Kingdom: Capital Constraints as Innovation Drivers	11
4.3 Europe: Holistic Risk-Return-Capital Integration	11
4.4 Asia-Pacific: Cautious Governance, Structural Lag.....	12
5. A Framework for Reform: From Cost to Catalyst.....	13
5.1 Governance and Accountability.....	13
5.2 Talent and Capability Building.....	13
5.3 Tools and Infrastructure	14
5.4 Policy and Execution Overhaul	14
5.5 Dynamic Risk and Capital Integration.....	14
6. The Time for Change Is Now	15

Executive Summary

Across Asia-Pacific, insurance companies face mounting pressure to deliver performance, capital efficiency, and regulatory compliance in a volatile market environment. Yet the investment function within most insurers remains framed as a cost centre: operational, reactive, and compliance-driven. That framing is expensive. It undermines strategic alignment between assets and liabilities and systematically forfeits performance, capital relief, and proactive risk management.

The following pages examine the current state of insurance investment governance across Singapore, Southeast Asia, and Australia. The picture is consistent: widespread inefficiency in how FX hedging, duration extension, collateral management, risk reporting, and execution policies are handled. Drawing from first-hand market observations and international frameworks including MAS RBC 2, APRA LAGIC, and Solvency II/ICS, the evidence shows how outdated approaches produce persistent performance drag and overcapitalisation.

Six real-world case studies spanning derivative mismanagement, inefficient execution, and passive risk practices are set against best-practice models from global peers, asset managers, and hedge fund governance frameworks.

The conclusion is a pragmatic framework for transforming the insurance investment office into a value-creating function.

Current poor investment governance and passive execution models result in a 100- to 400-basis-point drag on performance annually.

1. Insurance Investment Function

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.

The following sections unpack how prevailing practices – 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.

2. Framing the Investment Function: Cost or Catalyst?

2.1 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.

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.

- 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.

2.2 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.

- 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.

2.3 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), and capital-consumption efficiency are either not used or not linked to strategic decision-making.

Based on internal benchmarking across regional markets and supported by case studies in this paper, 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. Integrated offices that blend actuarial insight, treasury execution, and active portfolio management demonstrate significantly better net investment outcomes on a capital-adjusted basis.

To move beyond this state, insurers must treat investment as a source of enterprise value creation, not merely income generation.

3. Case Studies: Anatomy of Structural Inefficiency

1: FX Hedging – Mechanistic Execution, Missed Performance

The Status Quo

Most Singapore insurers hedge USD-denominated assets by rolling 3-month FX swaps into Singapore dollars. These are entered quarterly in batch-style execution windows and left to mature without monitoring or intervention. While simple, this routine hedging practice introduces significant structural inefficiencies.

Lack of P&L Realisation

Hedges that move significantly in-the-money during the swap term are not monetised. Favourable FX movements can lead to unrealised gains that expire and are replaced by new trades. MTM gains could be harvested through unwind and re-entry strategies – particularly 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 optionality. By foregoing optionality, insurers miss the opportunity to add convexity to the FX hedge profile, protect against adverse tail risk, and monetise volatility premiums in the FX options market.

Poor Collateral and Liquidity Planning

Collateral for FX swaps is sourced reactively from cash or saleable bond portfolio assets. There is rarely an integrated view of collateral demand across instruments, nor any effort to manage margin obligations strategically. This leads to cash drag, unplanned asset sales, and missed opportunities to use repos, MMFs, or broader collateral baskets.

A Better Model

Insurers should track FX hedge MTM daily and allow monetisation of gains when they exceed defined thresholds. Zero-cost collars, one-touch options, and forward-plus structures can be layered over core FX swap positions. FX hedging should be embedded within the insurer's ALM model – hedging cashflows rather than notional principal, using dynamic hedge ratios based on liability currency sensitivity.

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

The Status Quo

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

Operational Drag

To meet margin calls, insurers use the path of least resistance: selling corporate bonds or raising cash via short-duration instrument sales. This often results in realised losses on fixed income portfolios and disruption to broader asset allocation strategy. Many investment teams are unaware of daily or forward-looking collateral requirements from their FX and interest rate hedges.

Strategic Alternatives

Insurers should develop a collateral ladder – a tiered structure of assets for immediate, short-term, and long-term margin needs. CSA terms should be actively negotiated: broadening eligible collateral types, introducing minimum transfer amounts, and creating bilateral variation margin schedules. Real-time dashboards integrating portfolio, cash, and collateral analytics can empower treasury teams to anticipate and plan margin flows.

3: Duration Extension – Tools That Misalign with the Curve

The Problem with Interest Rate Swaps

The go-to instrument for duration extension is the vanilla IRS. While standardised and liquid, these are priced and settled using the OIS curve. Yet in many regulatory regimes – MAS RBC 2 or APRA LAGIC – liabilities are discounted using government bond curves. This curve mismatch introduces basis risk. Even if IRS duration matches liability duration, the underlying discounting mechanics differ, creating P&L volatility that is not easily hedged or capital neutral.

Missed Opportunities in Instrument Design

Despite these drawbacks, many insurers persist with swaps due to habit, simplicity, or lack of internal expertise. 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, and are margin efficient when managed with a transparent collateral policy.

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, and 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.

4: Leaving Alpha on the Table – No Use of Relative Value or Optionality

Why Relative Value Is Missing

Most insurers operate under tightly constrained mandates. Asset managers are often given strict guidelines that mirror index weights, with little room for deviation. In-house investment teams are frequently small and without structuring experience. Tactical ideas – bond roll-down, credit basis, dislocations in swap spreads – are considered speculative rather than strategic. Derivative overlays that allow for capital-efficient expressions of relative value are absent.

The Role of Optionality

Optionality is virtually absent in most regional insurance investment functions. The aversion stems from two misconceptions: that options are speculative, and that options are capital-intensive. Both are wrong. Receiver swaptions protect against interest rate spikes while holding long-duration bonds. Zero-cost collars in FX hedging strategies create defined payoff profiles

without net premium outlay. Covered calls or put spreads on low-volatility bonds enhance income while limiting downside.

What Better Looks Like

Insurers seeking to add relative value should create tactical risk budgets: controlled mandates capped by notional exposure, tracking error, or capital consumption, allowing portfolio managers to deviate from benchmarks under specified conditions. Regular performance attribution should distinguish beta return from benchmark, structural yield enhancement, and tactical relative value and optionality contributions.

5: Execution – The High Cost of Rigid "Best Execution" Rules

Process Over Outcome

Insurers in Singapore and across Asia-Pacific frequently adopt execution policies requiring at least three dealer quotes. While designed to ensure fairness, this approach becomes counterproductive for large notional bond trades, long-dated swaps or bond forwards, EM exposures, and sensitive strategic transactions. Dealers can infer intent from repeated RFQs and adjust pricing accordingly – widening spreads or sharing insights internally. This creates information leakage and market signalling risk, well understood by sophisticated hedge funds but underappreciated in insurance contexts.

Modern Execution Playbooks

Leading asset managers and sophisticated insurers segment execution approaches by asset class and context. They maintain execution playbooks defining product-specific execution methods, notional thresholds for multi-dealer vs single-dealer protocols, exceptions for time-sensitive or strategic trades, and TCA-based measurement and refinement of execution quality. For insurers, adopting these practices could reduce the cost of execution by 5–50 basis points depending on the product.

Recommendation

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. TCA systems should benchmark trades, identify slippage, and adjust strategies accordingly.

6: Passive Risk Reporting – No Feedback, No Foresight

The Status Quo

Most Asia-Pacific insurance firms track investment risk via monthly or quarterly reports: VaR, DVO1, modified duration, scenario results. The risk function compiles and distributes these metrics, which are reviewed at committee 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.

Why This Matters

Passive risk monitoring creates predictable structural problems. During market stress, insurers are often slow to reduce risk because no one is authorised or incentivised to act dynamically. Risk exposures accumulate and are only discovered in post-mortem reviews. Without real-time insight, insurers over-allocate to low-risk assets rather than using dynamic risk budgeting or overlays to control tail exposures.

A Better Model: Active Risk as a Performance Enabler

Leading institutional investors treat risk as a strategic input into asset allocation. Risk ownership is shared: risk professionals are embedded within investment teams rather than isolated. Dynamic risk budgeting assigns a risk budget to each strategy or asset class, adjusting based on market conditions, liquidity, or solvency constraints. Scenario-based playbooks define pre-agreed actions tied to macro or market scenarios. Real-time dashboards allow what-if scenario analysis in investment meetings, making risk discussions forward-looking rather than forensic.

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

4. Cross-Market Insights: What Global Peers Are Doing Better

4.1 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 – HOOPP, Ontario Teachers' – operate on the principle that investment, actuarial, and risk functions must be fully integrated.

Investment teams in these organisations' own liability sensitivity models, capital-at-risk metrics, and 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, and funding and collateral transformation. Internal teams include structurers, capital markets traders, actuaries, and risk professionals 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.

4.2 United Kingdom: Capital Constraints as Innovation Drivers

Solvency II has forced UK insurers to become capital-aware investors. Aviva and Legal & General have turned capital regulations into an opportunity, pioneering Matching Adjustment portfolios and internal capital models to unlock return with capital efficiency.

These firms have adopted 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, and dynamic duration hedging based on stress-adjusted capital efficiency. Investment committees feature multiple second-line stakeholders including internal audit and actuarial capital leads. Risk budgeting and scenario modelling are routine. Tactical risk budgets are structured, monitored, and reported alongside SAA performance.

4.3 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. Scenario-based ALM dashboards are used monthly in investment meetings. Climate and ESG risks are included in capital-adjusted return projections. Internal models are calibrated to allow flexibility in credit, duration, and FX overlays. Nordic insurers are leaders in risk budgeting by strategy – allocating economic capital not just to asset classes but to active positions.

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

4.4 Asia-Pacific: Cautious Governance, Structural Lag

Most insurers in Singapore, Malaysia, Thailand, and Australia share common features: high reliance on external asset managers or consultants, siloed treasury and 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, and investment policies focused on static benchmarks rather than capital-adjusted return.

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 good news is that Asia-Pacific insurers are not structurally constrained. They are culturally and institutionally cautious – but not incapable.

5. A Framework for Reform: From Cost to Catalyst

Transforming the insurance investment office from a passive function into a capital catalyst requires a foundational rethink of governance, accountability, culture, and risk integration.

5.1 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 (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

5.2 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

5.3 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.

Recommendations

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

5.4 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

5.5 Dynamic Risk and Capital Integration

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

6. The Time for Change Is Now

The investment office in most insurers today is underpowered. Not by regulation, but by mindset.

framing investment strategy as a compliance function rather than a strategic lever, forfeits meaningful performance, overcapitalises the balance sheet, and leaves institutions unprepared for volatile markets.

The structural and behavioural causes of this underperformance are not obscure. Outdated FX and duration strategies. Flawed execution. Siloed governance. These are well-understood problems with well-understood solutions. The gap between knowing and acting is organisational, not technical.

Global peers have demonstrated what integrated investment governance looks like in practice. Canadian life insurers run unified ALM, actuarial, and treasury functions. UK firms turned Solvency II capital constraints into a competitive advantage. European insurers embed capital-adjusted return metrics into monthly investment committee decisions. The tools and frameworks exist. The question is whether Asia-Pacific institutions will choose to adopt them.

The cost of inaction is quantifiable. Current passive governance and execution models produce a 100- to 400-basis-point annual performance drag, depending on the sophistication and integration of the investment office. This gap erodes policyholder value, surplus growth, and capital efficiency year after year.

Actuaries are well-positioned to lead this shift. Their unique perspective across liabilities, capital models, and systemic risk places them at the intersection of every function that needs to be connected. The opportunity is not to become investment managers. It is to ensure that investment decisions are made with a full understanding of what they cost and what they are worth.

The investment office can be a capital catalyst. Getting there requires clarity about what the current model is actually delivering.

Disclaimer

This paper is provided for informational purposes only. It does not constitute investment advice, financial product advice, or a recommendation to transact. It is not tailored to any institution's objectives, financial position, risk appetite, or regulatory constraints. All examples are illustrative. Markets move, assumptions change, and outcomes will differ. Past performance is not a guide to future results. Any views expressed reflect Para Bellum Advisors' judgement at the time of writing and may change without notice. Institutions should obtain independent advice and conduct their own analysis before making any investment, hedging, or risk-management decision.

Further Reading

Para Bellum Advisors publishes practitioner papers and CIO Briefs focused on real-world portfolio construction, risk and capital efficiency:

www.parabellumadvisors.com/insights/

About Para Bellum Advisors

Para Bellum Advisors is an independent advisory firm specialising in derivatives structuring, structured finance, balance sheet efficiency, and capital optimisation for institutional investors and corporate treasury teams.

The firm works with lean investment and treasury teams managing complex, multi-asset exposures – long-dated assets, illiquid portfolios, and non-standard risk profiles – where structural precision makes a material difference to outcomes.

Its engagements typically involve designing and re-engineering hedges across FX, rates, credit, equity, and volatility; identifying and releasing trapped capital; and providing embedded structuring capability where permanent headcount is neither practical nor warranted.

Para Bellum does not distribute products or earn transaction volume. Its value is in structure: how exposures are designed, how capital is consumed, and how portfolios behave when conditions deteriorate.

The firm is practitioner-led, drawing on three decades of experience across trading, structuring, and portfolio management in banks, asset managers, and institutional balance sheets in Asia-Pacific and global markets.

For more information: www.parabellumadvisors.com

For discussion or enquiries: mike.duncan@parabellumadvisors.com

Connect on LinkedIn: www.linkedin.com/in/mikeduncan-structuring/