

INSURANCE ASIA NEWS

Institutional Asset Management Awards
2023



Product Innovation Award

abr dn



Rob Andrew, Head of Insurance Solutions



Jian Xiong, Senior Solutions Director,
Multi-Asset Investment Solutions

abr dn's innovative approach to RBC for insurers is founded on incorporating capital efficiency, not as a check at the end of the investment process, but at the very start.

Awarded for the firm's considerable experience and capabilities in optimising clients' portfolios within a diverse and evolving range of risk-based capital regimes.

Making the most of its in-built advantage as an insurance company turned asset manager, abr dn's strategy is to pivot from its European (or more accurately, Scottish) roots, towards Asia.

As Rob Andrew, abr dn's Head of Insurance Solutions, said, "Asia is going to be the future of the insurance industry, it's already the second largest market in the world and it will quickly become even larger."

The evolution of the risk based capital (RBC) regime in Asia means that insurers are now having to tailor their investment strategies with this in mind. abr dn's innovative approach to RBC for insurers is founded on incorporating capital efficiency, not as a check at the end of the investment process, but at the very start.

A traditional asset allocation would seek to optimise efficiency across investment return and investment risk. abr dn adds a third dimension - capital efficiency, assessing how much capital a particular investment strategy is going to assume on the balance sheet. That's an important difference because it allows an insurer to effectively select the portfolio that is, all else equal, the least capital intensive.

Additionally, where asset allocation decisions are often made at the asset class level, abr dn's approach introduces individual assets in the primary optimisation.

RBC in practice

The development of RBC in Asia allows insurers to become optimal from the start. abr dn has been working with a Malaysian insurer as they transition to RBC II regulations, constructing an optimal strategic asset allocation (SAA) and then re-optimising the SAA for an explicit regulatory capital objective. This enabled a reduction in the overall capital charge from 9.6% to 7.6%, without reducing expected return or increasing expected risk. A final re-optimisation at a security level enabled a further reduction in the capital risk charge. Overall, capital charges fell by around 30% relative to investing only in pooled funds.

During 2022, abr dn's insurance specialists helped a Singapore-based insurer achieve its objectives for a non-participating credit mandate. Without considering liability cashflow, the portfolio was optimised with around 10% reduction in the capital charge, while still maintaining the target yield.

With liability cashflows included, the final re-optimisation enabled a further 18% capital risk charge reduction. This was achieved while leaving other portfolio characteristics largely unchanged or even slightly improved. For example, duration was slightly shortened, while both average credit rating and ex-ante volatility were improved.

Best Climate Change Strategy

abrdn

Climate change scenario analysis allows clients to assess how portfolios perform under a wide range of assumptions, using more realistic scenarios than off-the-shelf versions.

abrdn's award for Best Climate Change Strategy was given for the successful design and implementation of a climate scenario and analytics framework. abrdn is using the tool to help Asian insurers understand the different dimensions of climate change, how it may affect the companies, asset classes and markets in which they invest in. The proprietary cutting-edge framework undertakes analysis on a range of scenarios capturing climate risk and opportunities – enabling investors to build more resilient portfolios, encourage positive change at investee companies through better engagement and generate better long-term returns.

abrdn has also developed a ground-breaking multi-asset solution to help institutions achieve net-zero carbon targets by fully integrating climate risk and opportunity into the SAA framework.

abrdn carbon footprinting tool creates a baseline to map current carbon exposure in a portfolio, measuring its absolute greenhouse gas emissions (GHG), GHG intensity and trends over time, by using carbon metrics such as weighted average carbon intensity (WACI), Financed Emissions and Economic Emission Intensity. These metrics provide a different perspective on carbon, investors is able to use the output to identify the highest-emitting names in their portfolio and undertake engagement with these companies on their net-zero transition plans. abrdn's Multi-Asset Net Zero Solution targets lower combined Scope 1 & 2 emission using the WACI metric relative to benchmark, with footprinting analysis done across various asset classes, including equities, credit and private markets.

abrdn's climate scenario and analytics framework is leading the way in providing critical insights to inform investment decision-making, engagement, and reporting. It incorporates regional insights into scenario analysis to generate critical forward-looking observations. It is also flexible to react to changes and provides insights at index, sector, region, portfolio and asset level.

Net-zero SAA optimisations that use proprietary decarbonisation trajectory projections can improve the carbon emissions profile of a portfolio to forge a credible pathway to net-zero by 2050, while also retaining or even enhancing the risk/return profile.

abrdn is in the process of running its climate change analysis framework with several Japanese insurers and a major Singaporean insurer. The framework provides a new benchmark and possible blueprint for other insurers to utilise to help with their own climate scenario analysis.

Their innovations help to identify more realistic climate-related risks and opportunities – enabling clients to build more resilient portfolios and encourage positive change at investee companies.



abrdn's headquarters