The Impact of Global Regulations & Risk-Based Capital

Reshaping Insurance Investment Strategy in APAC

A CLEARWATER WHITEPAPER

Key Takeaways

01 Risk-based capital is reshaping investment strategies across APAC, forcing insurers to spend more time focusing on capital efficiency.

02 Portfolio allocation strategies are becoming more complex, with private credit and infrastructure debt taking on a more prominent role.

03 This shift is placing a greater operational burden on insurers, who often lack the skills and expertise for assessing credit valuations.

04 RBC is driving a more dynamic approach to portfolio management, with insurers increasingly adjusting asset allocations in response to changing market conditions and capital requirements.

05 As regulators refine their treatment of private assets, infrastructure debt and valuation practices, insurers will need to continually adapt their investment frameworks, governance structures and risk management capabilities.

Executive summary

Global insurance investment strategies are undergoing a structural shift as risk-based capital (RBC) regimes increasingly reshape how capital is deployed, measured and optimised. Across APAC, this is driving a rethinking of portfolio construction, with capital efficiency now sitting alongside return and liquidity as a core objective.

While similar frameworks have long influenced behaviour in Europe under Solvency II and in the US, APAC insurers are now accelerating their adaptation as domestic RBC regimes are implemented and refined. The result is a more explicit link between asset allocation decisions and regulatory capital and solvency.

This is prompting a gradual move away from traditional portfolios that are heavily exposed to the public markets, towards more diversified and complex allocations, including private credit and infrastructure debt. These assets are attractive not only for their potential yield, but also for their alignment with long-dated insurance liabilities and, in some cases, more efficient capital treatment under RBC frameworks.

However, the shift is also increasing operational and analytical demands. Insurers must strengthen their ability to assess credit quality, manage valuation uncertainty and oversee increasingly complex portfolios that span both public and private markets. This is accelerating the move towards more integrated investment, risk, capital and actuarial functions, as well as more dynamic portfolio management approaches.

Regulators in the region are behind this evolution, particularly where private markets align with liability profiles, but are also placing greater emphasis on governance, transparency and risk management. Importantly, RBC frameworks themselves are not static and continue to evolve, reinforcing the need for ongoing adaptation.

Ultimately, insurers that can combine capital optimisation with stronger governance and more flexible investment frameworks will be best positioned to deliver sustainable returns in a more constrained and complex regulatory environment.

This structural shift is already being reflected in operating realities across the region. According to a recent survey of 150 senior APAC insurance executives by Clearwater Analytics.

77%

believe more time and resources should be devoted to regulatory and compliance requirements

93%

agree that legacy technology is constraining their businesses. At the same time, insurers are increasingly balancing this regulatory intensity with transformation pressures

95%

report resistance to change in operating models and systems across their organisations.

RBC: A new norm for insurers' solvency.

APAC insurers are entering a new phase of investment strategy, one that is defined less by the search for yield alone and more by the efficient deployment of capital under evolving RBC regimes.

This shift is not unique to APAC. In Europe, Solvency II has already embedded capital sensitivity into investment decision-making, while US insurers have long operated under risk-based capital frameworks. What is now playing out across APAC is a similar transition, as new regimes force insurers to reassess how capital is deployed across increasingly complex portfolios.

Yet existing operating models are creaking. Built for a different age, many are no longer fit for what they now need to achieve in this increasingly complex and multi-faceted world.

They need to evolve into more integrated, forward-looking frameworks: combining investment, actuarial and risk functions. This means moving beyond siloed decision-making toward a more dynamic approach, balancing return, liquidity and capital efficiency in real time within the constraints imposed by new regulatory frameworks.

This challenge is widely reflected in industry sentiment. The Clearwater Analytics survey found that 73% of APAC insurers believe their operating model is too focused on short-term challenges rather than long-term strategic priorities, while 59% point to a lack of diversity in thinking (not just background diversity) as a contributing factor to decision-making constraints.

> **"The moment that RBC came in, everyone realised they had to be better matched. In practice, this meant improving the fixed income portfolio, because interest rate mismatches were now a real problem for insurers,"**

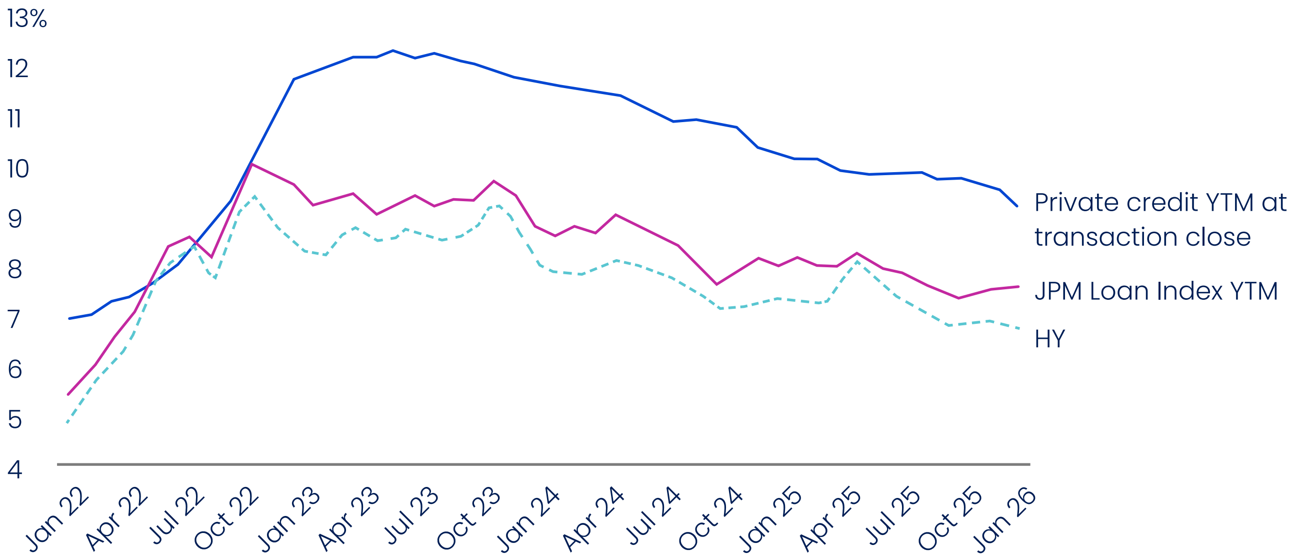
says Jateen Vaghela, a senior actuarial consultant who previously held prominent roles at Sun Life and Prudential.

Most APAC markets have updated their solvency capital regime over the past couple of years (see Table 1). This has driven a shift away from traditional allocations to more complex and diversified assets, particularly within private markets.

Market	RBC Regime	Key Implementation Date(s)	Notes
Hong Kong	HK RBC	July 2024	Three-year transition period, allowing insurers to artificially lower risk capital charges, ends on July 1, 2027.
Singapore	RBC 2	January 2020	One of the earliest adopters in APAC; ongoing refinements.
Japan	ESR	March 2026	Based on ICS with significant local calibration.
South Korea	K-ICS	January 2023	Major shift to market-consistent valuation and capital charges.
Taiwan	TW-ICS	January 2026	Gradual transition underway; strong regulatory focus on FX and guarantees.
China	C-ROSS II	2022 (upgrade)	Enhancement of existing RBC framework rather than full overhaul.
Australia	LAGIC	2013 (ongoing updates)	Mature regime; less directly aligned to ICS but conceptually similar.
Malaysia	RBC 2	2027	Replaces existing RBC framework.
Thailand	RBC	2011 (updated periodically)	Moving gradually toward more risk-sensitive calibration.
Indonesia	RBC	Existing (enhancements ongoing)	Less sophisticated but evolving toward stronger risk sensitivity.

Such a trend coincided with the Covid-19 pandemic and recent economic downturn and property crisis in China, when bond yields compressed and insurers were forced to search for more attractive sources of income. Private credit yields have since moderated from their post-pandemic highs, although they continue to offer a premium over comparable public market credit (see Table 2). While the data shown is derived from the US market, it provides a useful indication of the broader dynamics that have also supported growing insurer interest in private credit across APAC. Interest in more sophisticated and complex allocation strategies therefore remains high.

TABLE 2



> **"I see two halves to this. Before RBC came along, investment strategies were very static. If equities went down, capital allocations remained fairly flat, so insurers were almost agnostic to market conditions,"** says Vaghela.

> **"Now everyone's focused on dynamic asset allocation strategies. Since RBC is now in force, any investment decision that an insurer makes will affect their capital position – and that is their number one concern."**

RBC in the driving seat

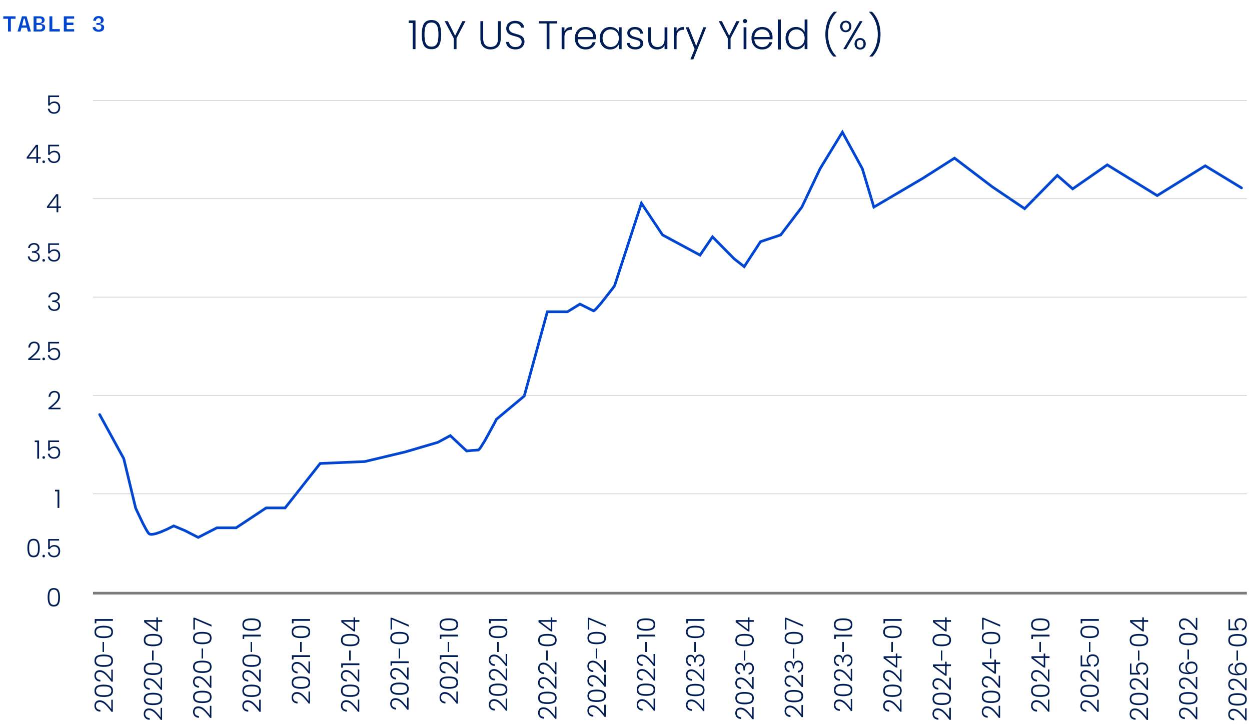
The introduction of a more risk-sensitive framework requires insurers to think about capital in a fundamentally different way.

While there is plenty of nuance from one jurisdiction to another, RBC implementations broadly agree that the amount of capital an insurer needs to hold should be tied to the risk profile of each asset and liability. Assets with high volatility, weaker liquidity or poorer liability-matching characteristics attract higher charges.

Capital-adjusted market risk is often the most significant risk on an insurer's balance sheet, so this is where most capital is held. It is also where there are the greatest opportunities for capital optimisation. Taking too much risk within investment portfolios leads to punitive capital charges, while not taking enough risk generally indicates poor return on equity for shareholders.

Interest rate risk is of particular concern. Any change in interest rates affects the valuations of an insurer's assets and liabilities, potentially widening the gap between the two. This is particularly relevant in today's world of high volatility and sudden, unexpected shocks (see Table 3).

TABLE 3



"This has led insurers to prioritise hedging balance sheet interest rate risk where possible to neutralise the risk charges that stem from interest rate risk, which is particularly relevant for life insurers with long liability durations," says Max Davies, APAC Insurance Director at Man Group.

While RBC capital charges are an important element in shaping insurers' investment decisions, this should not be seen in isolation.

"What really matters is how assets interact with liabilities," says Erik Bleekrode, APAC head of insurance at KPMG.

> **"In many Asian markets, insurers have long-dated liabilities but limited availability of equally long-dated assets in local currency markets, which increases the importance of asset-liability matching."**

Asset Class	Typical RBC Capital Charge
Equity	30-40%
Private Equity	35-45%
IG Corporate Bonds	4-10%
Private Credit (IG-like)	8-15%
Infrastructure Debt	6-12%
Government Bonds	0-5%

This challenge is particularly acute in parts of Asia where long-duration local assets sourcing remains competitive and challenging in the macro environment. With incoming policy benefit as well as attractive capital-adjusted yields, these are increasing insurers' appetites for infrastructure and private credit investments that can better match liability profiles.

Equity investments are also capital intensive under RBC, reflecting the volatile nature of the asset class (see Table 4).

"While some life insurers have previously invested heavily in equities given the long-term nature of their business, this strategy is harder to justify under RBC capital charges," says Davies. "Most insurers will retain some level of equity exposure (given the historically high equity risk-premium) but in potentially lower levels than seen previously."

Many of these adjustments require sacrificing yield. The question is whether insurers can find anything to replace this lost income stream. Alternative assets, especially private credit, fill this space nicely.

> **"Asset classes such as direct lending look very attractive when evaluating on a return-on-risk capital perspective under the new generation of RBC regimes,"** says Davies.

Not only do such assets offer additional yield-pick-up via the illiquidity premium, but those that are highly rated often fare better under RBC than equity for fixed income instruments with too much exposure to interest rate risk.

However, reshaping the asset mix is not just about shifting capital around. It also requires a fundamental rethink of portfolio allocation strategy.

Portfolio construction

Nick Dekker, Head of Northeast Asia at Alpha FMC, a specialist consultancy to the asset and wealth management industry, says that where many firms fall over is in losing their total portfolio view.

"Most insurers have both public and private allocations. The harder problem is seeing them as a single portfolio," says Dekker. "Public markets price continuously; private markets are valued quarterly and in arrears. Public holdings come with standard identifiers and clean data feeds; private holdings arrive as PDFs and often lack unique identifiers altogether. Producing a combined view quickly is genuinely hard."

Such differences have persuaded many insurers to keep their private and public books separate, but Dekker argues that this is sub-optimal.

> **"You can do a total portfolio view without going all the way to a 'total portfolio approach',"** says Dekker. **"The pay-off of the 'view' on its own is straightforward: you see the whole book in one place, rather than optimising individual sleeves in isolation and finding out later that the overall outcome was sub-optimal."**

As insurers' private market exposures have matured, allocation strategies have grown more sophisticated. Dekker points to Australia and New Zealand, where several leading funds have adopted total portfolio approaches over the last decade and brought material parts of their asset management in-house. He sees both as markers of the maturity of those firms - confident enough to embrace what is still a very modern investment approach, and to internalise capabilities most peers continue to outsource.

Some APAC insurance companies are also experimenting with systemic credit investing techniques, according to Davies.

"We believe that this is led by several tailwinds including fixed income markets becoming more efficient (meaning that alpha is harder to come by), rapid improvements in quantitative investment techniques and technology, the increasing complexity and cost of insurance asset management, as well as the inherent need to optimise portfolios on a position level basis due to these new RBC regimes," he says.

Davies adds that, with beta returns under pressure, insurers are increasingly exploring uncorrelated sources of return that can take advantage of greater dispersion. The complexity of these approaches makes full portfolio oversight even more important, particularly given the risk of higher capital charges if they are not properly managed.

Regulatory evolution

Overhauling operating models can be challenging, though, especially for smaller firms or those firms that lack the necessary resources. Dhiran Dookhi, a partner at Deloitte, points out that many insurers based in APAC tend to have smaller investment teams than those from Europe or the US.

> **"This is one obstacle that many of these firms have to overcome. How do they scale up in an appropriate way with the team size they have? Do they need to add more resources and skills?"** says Dookhi.

Moving beyond a traditional asset allocation split requires a different approach to assessing risk. For example, investing in direct lending demands a clear understanding of the underlying collateral and the creditworthiness of borrowers – an area that is drawing increasing scrutiny from regulators.

"Regulators have been putting a bit more pressure on companies to make sure that they know what they are actually doing, and can adequately manage the uncertainty around valuations," says Dookhi.

At the same time, APAC regulators are showing growing support for insurers' expansion into private markets. Illiquid assets with long-duration cash flows are, after all, well aligned with the asset-liability management needs of life companies.

In February, Hong Kong's Insurance Authority (IA) launched a new consultation on potential amendments to its capital rules, including whether certain types of infrastructure should be given preferential treatment. The conclusions of this consultation were published on May 8. The regulator has also taken a favourable stance towards asset-backed financing, even though this tends to be of shorter duration, treating it like standard corporate credit rather than applying more punitive capital charges.

The Monetary Authority of Singapore has also lowered capital charges for infrastructure debt – changes that became effective at the end of March. Unlike Hong Kong, though, Singapore maintains specific capital charges for asset-backed securities.

> **"Even though these investments might be unrated, the risk profile of lending to regulated infrastructure in a stable political and regulatory environment can be more attractive than that of an unrated bond,"** says Pedro Moura, head of Asia client solutions for Schroders.

Moura adds that insurers are more likely to invest in certain assets because "they meet their economic needs" rather than because of any incentives that regulators might give. Nonetheless, support from regulators helps the direction of travel, and underscores how important capital charges are for insurers when deciding where to put their money.

Looking ahead, RBC frameworks are unlikely to remain static. As regulators refine their treatment of illiquid and complex assets – while placing greater emphasis on transparency, valuation discipline and risk governance – insurers will need to continuously adapt how they construct and manage portfolios. In that sense, regulatory change is not a one-off adjustment, but an ongoing force that will continue to shape investment strategy across the region.

Building that strategic advantage

Technology and data infrastructure are emerging as critical constraints on this evolution. The Clearwater Analytics survey suggests 93% of insurers believe legacy technology is holding back their organisations, while 56% are prioritising expanded use of data analytics and 55% are actively integrating AI and machine learning capabilities.

Despite this ambition, execution challenges remain significant. Respondents identified data ingestion and harmonisation across trade, position, market and third-party datasets as the single biggest operational challenge, underscoring the complexity of achieving a truly integrated, capital-aware investment framework.

Ultimately, insurers should view RBC as an opportunity rather than a constraint. Gaining a competitive advantage is about optimising capital, investing in technology and embedding the right processes.

Those that succeed will be the ones able to move beyond traditional, siloed operating models and adopt a more integrated approach to portfolio construction.

At the same time, the ability to access a broader opportunity set must be matched by stronger governance, deeper analytical capabilities and a clear understanding of underlying risks. This includes managing areas such as valuation uncertainty, liquidity and capital efficiency in a more dynamic way.

The challenge is not simply to adapt, but to build the flexibility to respond to ongoing change.

Sources

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Interviewed

Jateen Vaghela, a Senior Actuarial Consultant

Max Davies, APAC Insurance Director at Man Group

Erik Bleekrode, APAC Head of Insurance at KPMG

Nick Dekker, Head of Northeast Asia at Alpha FMC

Dhiran Dookhi, a partner at Deloitte

Pedro Moura, head of Asia client solutions for Schroders

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Clearwater Analytics is transforming investment management(with the industry's most comprehensive cloud-native platform for institutional investors across global public and private markets. While legacy systems create risk, inefficiency, and data fragmentation, Clearwater's single-instance, multi-tenant architecture delivers real-time data and AI-driven insights throughout the investment lifecycle.

The platform eliminates information silos by integrating portfolio management, trading, investment accounting, reconciliation, regulatory reporting, performance, compliance, and risk analytics in one unified system. Learn more at www.CWAN.com.