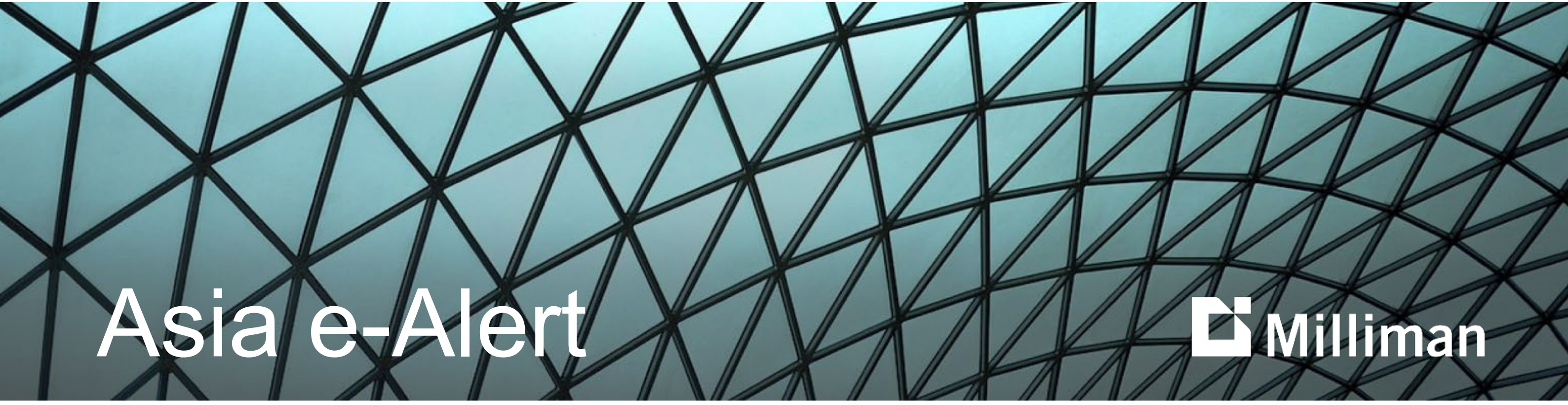


Singapore: 2025 participating fund health check

Introduction

In this e-Alert we review the position of participating (par) funds in Singapore at the end of 2024, based on public information published in 2025, and compare this to the position at the end of 2023. For information on solvency and capital we have used data from the 31 December 2024 insurance returns as published on the Monetary Authority of Singapore (MAS) website. Following the merger of HSBC Life Singapore and AXA Insurance at the end of 2022, HSBC Life Singapore now has two separate par funds: the HSBC (I) fund, which is the original HSBC heritage business, and the HSBC (II) fund, which is the par fund that was formerly managed by AXA Insurance. The insurance company returns available from the MAS website do not separate the two HSBC funds, so any reference to HSBC solvency and capital is in respect of the aggregate basis across the two par funds.

Information on investment returns and investment mix was obtained from insurers' par fund updates, published on their websites. Etiqa's par fund update has not yet been published, so we have instead obtained the same information for its par fund from the latest product summary for its Enrich Income product. Where insurers manage separate investment pools within the par fund, or have multiple par funds, we have focused on the investment pool or fund that we believe to be the main fund used for SGD-denominated business, so the figures we show will not necessarily reflect each par fund in totality.

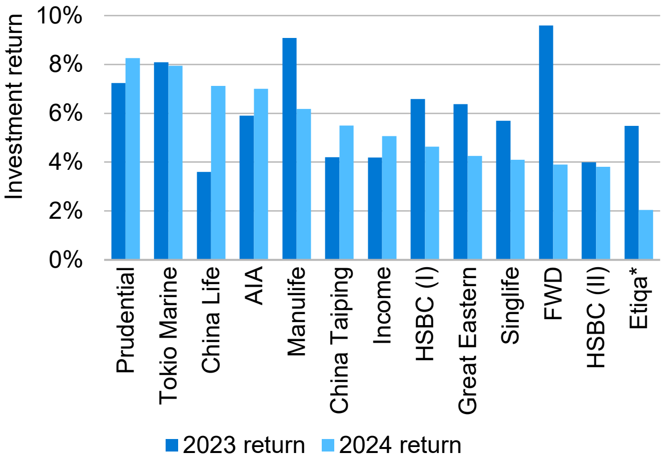
FWD Singapore launched its par fund in 2023, so we include the information on this fund from 2023, with no figures for previous years.

Investments

Figure 1 shows the annual investment return experience for each par fund for 2023 and 2024. The simple average of returns across all companies in 2024 was 5.37%, which is lower than the 6.16% for 2023 but still well above the current illustration cap of 4.25% for SGD-denominated par business.

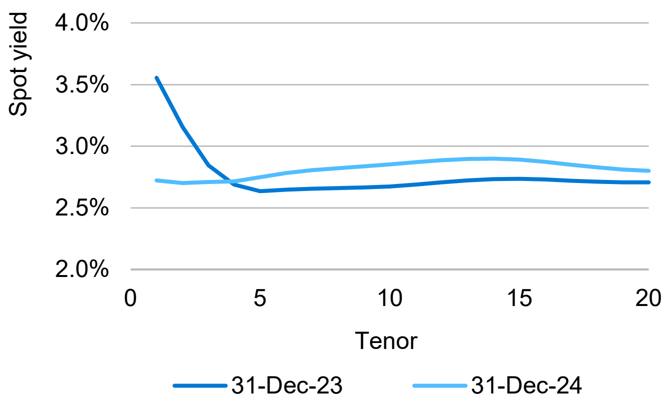
As with previous years, we observe quite a variation in the returns across different companies, with Prudential (8.26%) and Tokio Marine (7.94%) at the upper end of the range, but Singlife (4.10%), FWD (3.90%), HSBC (II) (3.81%), and Etiqa (2.04%) are all below the 4.25% illustration cap rate. Of course, par policies are medium- to long-term contracts, and we expect annual volatility in returns, with the investment returns over longer term periods being of more interest.

FIGURE 1: PAR FUND INVESTMENT RETURNS FOR 2023 AND 2024



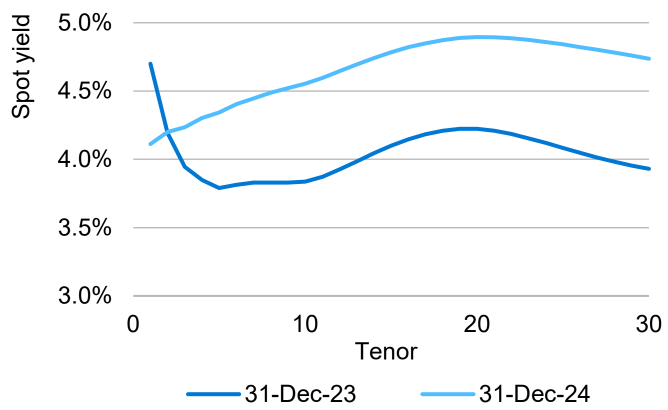
Investment strategies for par funds typically involve a mix of assets but usually include a significant proportion of fixed interest assets. As the market returns on fixed interest assets can be heavily influenced by changes in yield curves, it is useful to look at the change in yield curves over the year. As can be seen in Figure 2, other than at the very short end where there was a marked drop, the Singapore Government Security (SGS) yield curve did not move that dramatically between the beginning and end of 2024, but there was an increase of between 10 and 20 bps for tenors of five and 20 years. This increase in yields would have had a negative impact on SGD bond prices that would have partially offset the return from income on the bonds, so we might have expected quite muted returns on SGD fixed interest assets.

FIGURE 2: SGS YIELD CURVE AT 31-DEC-23 AND 31-DEC-24



As there is limited availability of SGD corporate bonds, we typically see par funds investing in USD fixed interest assets as well as SGD. Figure 3 shows the movement in the US Treasury yield curve between the start and end of 2024. As with the SGS yield curve, we see there was a drop in yields at the short end, but beyond that there was a more material rise in yields, with increases of between 55 and 73 bps for tenors of five to 20 years. This rise in yields could have had a more significant impact on market prices that could have potentially resulted in low or even negative returns for any USD fixed interest portfolios over 2024.

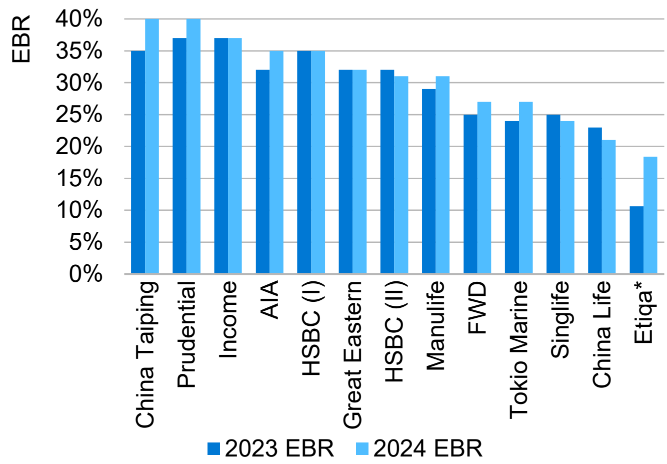
FIGURE 3: US TREASURY YIELD CURVE AT 31-DEC-23 AND 31-DEC-24



In addition to fixed interest assets, par funds will typically invest a significant portion of the fund in equities and other growth assets. 2024 was a strong year for equity returns, with total returns of 23.5% for the Straits Times Index, 25.0% for the S&P500, and 18.7% for the FTSE Global All Cap. These strong returns on equity markets will have helped offset the lower returns from fixed interest assets and will likely be the key driver of the strong returns observed for par funds in 2024.

Based on this market data, we might, therefore, expect to see a correlation between the investment returns of the different par funds and the proportion of those funds that invests in equity relative to fixed interest. Figure 4 shows the actual equity backing ratios (EBRs), the proportion of investments allocated to equity and property, for each company's par fund as at 31 December 2023 and 31 December 2024. Prudential experienced the highest return in 2024 and has the second highest EBR, but Tokio Marine had the second highest investment return but has one of the lower EBRs. Etiqa's low EBR could well be the reason for its poorer investment performance relative to others, but China Life's par fund still achieved one of the highest investment returns, despite having one of the lowest EBRs.

FIGURE 4: PAR FUND EBRS AT 31 DECEMBER 2023 AND 2024



Clearly there is more to the total fund investment returns than simply looking at the EBRs and returns based on market indicators. Allocations to different equity markets and stock selection within each of those will have an impact on overall returns, as will the actual bond selection within fixed interest portfolios and how credit spreads on these have moved. With investments in different markets, there will also be effects from foreign exchange movements and the degree to which these are hedged.

Par policies are long-term insurance policies, and the ability to support policyholder benefits, both guaranteed and non-guaranteed, will depend on the long-term investment performance of the par fund. To get a view of the longer-term investment performance, we have calculated the annualised investment returns for each par fund using a geometric average of the returns over the past three- and five-year periods to 31 December 2024, as shown in Figure 5. It should be noted, however, that observed investment returns over selected specific periods will not be a guide to how the funds have performed over longer periods, or how they will perform in the future.

FIGURE 5: ANNUALISED INVESTMENT RETURNS BY PAR FUND FOR PAST 3 AND 5 YEARS TO 31 DECEMBER 2024

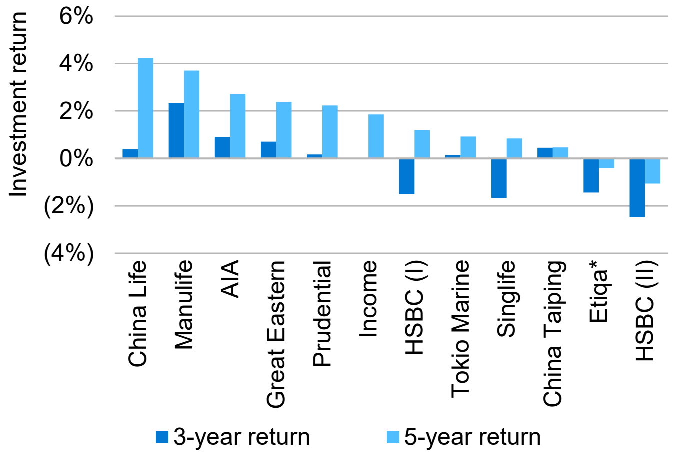
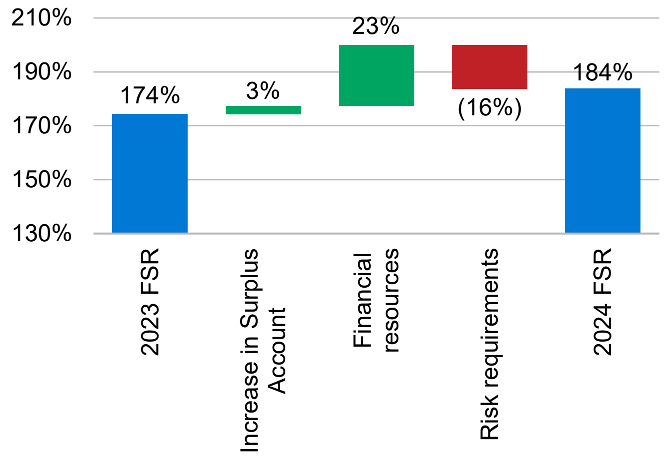


FIGURE 6: CHANGE IN INDUSTRY-LEVEL PAR FUND FSR OVER 2024



We can see that, despite the good investment returns in the last two years, the returns over the past three- and five-year periods are much lower, and even negative for some. 2022 saw very poor investment returns that were mainly due to large rises in interest rates that led to significant falls in bond prices. Investment returns in 2022 were as low as (14%) for some companies and worse than (10%) for six of the 12 funds. Although the rise in interest rates caused market value losses in 2022, the higher interest rates should then result in higher returns on fixed interest assets going forward, creating expectations of higher future returns that would eventually outweigh the impact of the losses experienced in 2022.

Whilst we are seeing higher investment returns having played out in 2023 and 2024, this has not been the case for all funds. All but two companies have had annualised returns greater than 4.5% over 2023 and 2024 on a geometric basis, with Etiqa and HSBC (II) achieving 3.75% and 3.90%, respectively. We can see that all funds are going to need to continue to have strong investment returns to bring their long-term returns up above the levels that will have been illustrated in the past, but this is particularly the case for Etiqa and HSBC (II), as can be seen from their five-year return figures.

Solvency and capital

Figure 6 shows an aggregate-level picture of the change in par fund solvency over 2024, summing the financial resources and risk requirements across all the par funds in the Singapore market. It shows that the aggregate-level FSR increased by 10 percentage points over the year, from 174% to 184%, driven by a strong increase in the financial resources, partially offset by a smaller increase in the risk requirements. There was also an increase in the aggregate surplus account (SA) support to solvency.

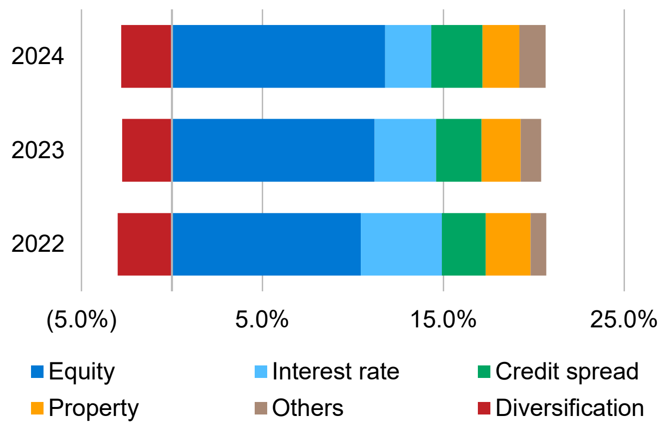
The increase in financial resources observed will be due to a combination of factors. As noted previously, investment returns in 2024 were strong for many funds, which increases the buffer within the provision for future non-guaranteed benefits when the returns exceed the increase in guarantees from bonuses added in the year and the unwind of the risk-free rates in the calculation of the guaranteed reserves. As well as the impact from investment returns, changes to the risk-free discount rate will impact the financial resources due to the effect on the guaranteed reserves. Figure 2 shows that beyond tenors of four years, the SGD risk-free curve has risen slightly over 2024, which will have had a positive impact on financial resources. Introduction and/or expansion of matching adjustment portfolios could also have led to an increase in financial resources. Finally, new business written in 2024 will likely have contributed to the increase in financial resources, as the buffer for future non-guaranteed benefits allowed for in pricing can be recognised upon onboarding the new business.

Risk requirements have increased over 2024, which is expected given that the funds themselves have grown. At an aggregate industry level, we have seen par fund C1 insurance risk requirements increase by 7.9% over 2024, which is likely driven by the writing of new business exceeding the run-off of existing business over the year. C2 market risk requirements grew by 8.8% over the year, which is, in the main, a reflection of the growth in par fund assets (7.8%).

Figure 7 shows the breakdown of the C2 risk requirements into the different risks, with comparisons between 2024, 2023, and 2022 year-ends. We can see that the increase in the C2 requirements over 2024 has come from a further increase in equity risk requirements, as well as an increase in credit spread risk requirements, offset by a reduction in interest rate risk requirements. The increase in equity risk requirements is likely the result of increased allocation to equities, as is indicated by the change in EBRs shown in

Figure 4. The reduction to interest rate risk could be, in part, due to an increase in the use of matching adjustment portfolios, which increase the risk-discount rates used for the liabilities, thereby shortening the dollar duration of the liabilities, which in turn would most likely reduce the interest rate risk charges, since par fund liabilities are typically longer than the assets. Alternatively, it could be due to insurers increasing the duration of their fixed interest assets to achieve a closer match to the long-term liabilities.

FIGURE 7: INDUSTRY-LEVEL BREAKDOWN OF PAR FUND C2 RISK REQUIREMENTS AS A PROPORTION OF TOTAL INVESTMENTS 2022-2024



An extension of matching adjustment portfolios might, on its own, be expected to reduce credit spread risk requirements, but the observed increase could be coming from a range of possible factors: an increased allocation to corporate bonds; a lowering in the average credit rating of the corporate bonds, perhaps with more unrated debt; or a lengthening of the corporate bond portfolio duration. Given that an increased duration in the bond portfolios would also explain the reduction in interest rate risk requirements, this may be the main driver of change.

The increase in the aggregate SA across the industry has been driven by Tokio Marine, where there was a SGD 1,074 million increase. In the 31 December 2023 returns, we saw that the Tokio Marine par fund had an FSR of under 100% (97%), so it is perhaps not surprising that it has injected further funds to the SA to steady its solvency position, although this now sits at 219%, as at 31 December 2024, second only to AIA of the larger par funds. It now has a total of SGD 1,940 million in the SA, which is far in excess of others, with the next highest being Manulife with SGD 801 million, and then HSBC with SGD 290 million (across its two funds).

On a much smaller scale than Tokio Marine, we observe that Manulife's SA increased by SGD 45 million over 2024 and AIA's reduced by SGD 92 million. In AIA's case the reduction in SA follows a similar reduction in 2023 (SGD 139 million) and is likely the result of its very healthy FSR not requiring SA support (253% FSR excluding the SA). In fact, we see that at 31 December 2024, other than Tokio Marine, all companies have FSRs of at least 125% without SA support, indicating that, on a Singapore Risk Based Capital (RBC) basis, par funds in Singapore are generally quite well capitalised to withstand future risks. This does, however, rely on insurers ability to cut future bonuses without restriction.

Conclusions and future outlook

The strong investment returns in 2024 will have further helped aid the recovery from the poor returns that were experienced from the rising interest rates in 2021 and 2022; however, the total returns over the past five years still remain below the current illustration investment cap rate of 4.25%. Where insurers have been relying on strong future investment returns to offset the poor experience in 2021 and 2022 to avoid the need to cut bonus rates, they will further need a continuation of strong investment performance into the future.

Despite the volatility in equity markets caused by Donald Trump's 'Liberation Day' tariffs and the initial falls in stock markets that this created, there has been a rebound in equity markets in the second quarter of 2025. Total returns for the Straits Times Index over the first half of 2025 were 7.3%, and the FTSE Global All Cap total return index was up 5.5% for the year to 31 July 2025. By 31 July 2025, total returns for the S&P500 were at 8.6% for the year-to-date, although this will have been offset by the USD weakening by 4.7% against the SGD over the same period. The SGD yield curve has fallen by 0.5% to 1.0%, for tenors up to 20 years, over the first half of the year, which will have had a positive impact on investment returns from any SGD fixed interest assets. The USD yield curve has also fallen for tenors up to 20 years, but by a lesser extent (0.1% to 0.6%), so the return on USD bonds may be less favourable, especially if the currency is unhedged (although typical market practice would be to hedge currency risk on fixed income portfolios). The widening gap between the SGD and USD yield curves will also be further increasing the cost of currency hedging USD to SGD.

Whilst the fall in interest rates will have been helping to improve investment returns, we expect it will have also been having a negative impact on solvency positions. The key 20-year SGD yield has dropped 0.5% over the first half of 2025, which will have increased the value of guaranteed liabilities and therefore reduced financial resources. It would also tend to increase the C1 insurance risk requirements and the C2 interest rate and credit spread risk requirements. Fortunately, the majority of companies' par funds were in relatively strong solvency positions at 31 December 2024, so whilst FSRs may drop, we expect most companies to be able to withstand such market movement without requiring any additional capital support from shareholders.

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